

**KENSINGTON POLICE PROTECTION AND  
COMMUNITY SERVICES DISTRICT**

Financial Statements and Independent Auditor's Report for the  
Year ended June 30, 2016

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**Basic Financial Statements**  
**and Required Supplementary Information**  
**for the Fiscal Year Ended June 30, 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Kensington Police Protection and Community Services District  
Kensington, California

I have audited the accompanying financial statements of the governmental activities and each major fund of the Kensington Police Protection and Community Services District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of the Kensington Police Protection and Community Services District as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (Continued)

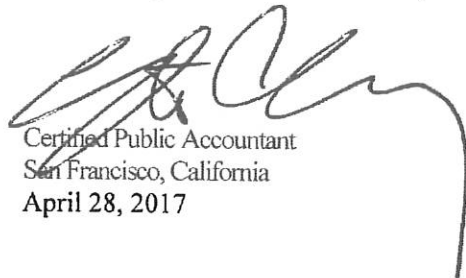
### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, post-employment benefits and budgetary comparison information on page 3-7 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. I 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

#### *Implementation of New Accounting Standards*

As disclosed in Note 1 to the financial statements, the Kensington Police Protection District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year ended June 30, 2016.



Certified Public Accountant  
San Francisco, California  
April 28, 2017



**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

This discussion and analysis of the Kensington Police Protection and Community Services District's (the District) fiscal performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. Please review it in conjunction with the transmittal letter and the basic financial statements, which begin on page 8.

**FINANCIAL HIGHLIGHTS**

**From the Statement of Net Position**

- Total net position for the years ended June 30, 2016 and 2015 are \$3,097,405 and \$2,590,442, respectively.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations for fiscal years ended June 30, 2016 and 2015 are \$(927,983) and \$(1,258,418), respectively.
- GASB 68 Information—As of June 30, 2016, long-term pension liability is \$2,878,245 (measurement date June 30, 2015). Deferred outflow of resources is now \$728,847 (net increase of \$347,073) and deferred inflow of resources is \$412,768 (net decrease of \$245,342), all derived from the PERS Actuarial Report (valuation date June 30, 2014).
- Long term net pension liability for the years ended June 30, 2016 and 2015 are \$2,878,245 and \$2,559,571, respectively.

**From the Governmental Fund Financial Statements**

- Our General Fund balance increased by \$247,283, which is compared to an \$114,641 increase in 2015.
- Property tax revenues (including special tax revenue for police services) for fiscal years ended June 30, 2016 and 2015 were \$2,757,396 and \$2,666,312, respectively. This is a 3.4% increase.

**OVERVIEW OF FINANCIAL STATEMENTS**

The District's basic financial statements are composed of three components: government-wide financial statements, governmental funds financial statements, and notes to the financial statements. Required supplementary information in addition to the basic financial statements is also presented.

**Government-Wide 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 a private-sector business. There are two government-wide financial statements—the Statement of Net Position and the Statement of Activities and Changes in Net Position.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Government-Wide Financial Statements (Continued)**

The Statement of Activities presents information showing how the District's net position changed during the fiscal year. Accrual of revenue and expenses is taken into account regardless of when cash is received or paid.

As in a private-sector business, capital assets are depreciated, debt service is not a source of revenue, and compensated absences are expensed in the period earned.

**Governmental Funds Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The major differences between fund financial statements and government-wide financial statements are in the way debt proceeds, capital outlay, and compensated absences are recorded. Reconciliations between the two types of financial statements are found on page 8 using the adjustment column.

**Notes to the Financial Statements**

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

**Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules and a PERS schedule of funding progress.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position serves over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$3,097,405 as of June 30, 2016 and \$2,590,442 as of June 30, 2015. This number is composed of three components:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Investment in capital assets, net of debt	\$ 3,858,056	\$ 3,872,547
Restricted	167,332	(23,687)
Unrestricted net position	<u>(927,983)</u>	<u>(1,258,418)</u>
<b>Total net position</b>	<u><u>\$ 3,097,405</u></u>	<u><u>\$ 2,590,442</u></u>

Investment in capital assets consists of fixed assets less any related debt.

Unrestricted assets are used to finance day-to-day operations, including debt service.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**GOVERNMENTAL FUNDS ANALYSIS**

The District's largest source of revenue is from property tax allocations. In 1978 the voters passed Proposition 13 and removed the ability of local agencies to set their own property taxes. The 1% maximum property tax rate is fixed by Article XIII A, § 1(a) of the California Constitution. The Legislature adopted statutes ("AB 8") that tell county auditor-controller's how to allocate the resulting revenues. This is unrestricted revenue and can be used for all District business.

The District's collection of Special Tax Revenue, another large source of revenue, is restricted to police activities. The current rate as of June 30, 2016 was established in 1997 after receiving voter approval in 1994.

The District also collects a special assessment called the Kensington Park Landscape and Lighting District Assessment. The funds are restricted for maintenance of that part of the park purchased with the proceeds of the 1994 Limited Obligation Improvement Bonds.

In fiscal year ended June 30, 2016, the District was the beneficiary of the COPS Grant minimum allocation of \$100,000. The funds must be used for law enforcement only and all expenditures have been approved by the District's Board of Directors. In fiscal year 2015/2016, this grant money was used to fund the tenth officer position.

The largest expenditure of the District is salary and benefits, including PERS contributions. These are governed by current Memorandum of Understanding agreements negotiated between the District and represented and non-represented employees.

The other area of expenditures of significance are for services, supplies and legal. That would include items such as communications and vehicle operations. This is the support structure for the police department.

Other reserved funds:

Reserved for compensated absences payable—\$79,565.

**COMMENTS ON BUDGET COMPARISONS**

Actual revenues and actual expenditures versus budget amounts equals a positive variance of \$183,458.

Actual revenues exceeded budgeted revenues by \$221,824. The largest difference is that the District received \$100,000 more than budgeted in Grant Revenue. It is important to note that the COPS grant revenue is not budgeted for because at the time of adopting our budget each year, the State of California has not yet determined whether it will be issuing those grants. All property tax revenue together was \$35,470 over budget. The District also received \$18,526 from assets seizure/forfeitures.

Actual expenditures were more than final budgeted expenditures by \$38,366. The largest difference was \$170,697 in District expenses, mostly made up of \$163,952 in legal expense. Police expenses were under budget \$74,569. The three largest factors were \$36,581 less spent in communication, \$24,990 less spent in vehicle operation and \$19,570 less spent in radio maintenance. It is important to note that the officer in charge of vehicle maintenance was out due to injury so there is a portion attributable to deferred maintenance. KPPCSD had paid off the Motorola lease for radios in FY 14/15. Another \$36,581 was saved in Communications.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**HISTORY AND ECONOMIC FACTORS**

The Kensington Police Protection and Community Services District was formed as a Police Protection District in 1946 for the purpose of providing police services to the community of Kensington. In 1953, the District was changed to a Community Services District, per Government Code 61600, which enabled the District to provide park and recreation services, oversight to the solid waste contract, in addition to the provision of police protection services.

In 1978, Proposition 13 was passed by California voters resulting in the implementation of AB 8 which set the formula used in property tax allocation for local government. The formula was based on prior years' budgets and the Kensington Police Protection and Community Services District had a history of very lean budgets.

In 1980, the Board of Directors for the District approved Resolutions 80-01 and 80-02, setting into motion a proposal for a special tax and a special election for the special tax. The original amount of the tax was \$45 per year for single family residential unit, \$90 per year for multiple unit residential property, \$135 per year for commercial and institutional property and \$45 per year for miscellaneous improved property. These funds are restricted to be used for police related services only.

In 1984, the Board of Directors for the District approved Resolution 84-01 requesting the electorate approve an increase in the special tax to \$90 per year for single family residential, \$135 per year for multiple unit residential property, \$180 per year for commercial and institutional property and \$90 per year for miscellaneous improved property. These funds are restricted to be used for police related services only.

In 1993, the Board of Directors for the District approved Resolution 93-04 requesting the electorate approve an increase in the special tax to \$210 per year for single family residential, \$315 per year for multiple units residential property, \$315 per year for commercial and institutional property, \$210 per year for miscellaneous improved property and \$63 per year for unimproved property. These funds are restricted to be used for police-related services only.

In 1994, the Board of Directors for the District approved Resolution 94-13 requesting the electorate approve an increase in the special tax to \$300 per year for single family residential property, \$450 per year for multiple units residential property, \$450 per year for commercial and institutional property, \$300 per year for miscellaneous improved property and \$90 per year for unimproved property. An increase of tax was voted and passed. These funds are restricted to be used for police-related services only.

In 1997, the Board of Directors for the District approved Ordinance 97-01 setting the rates at the maximum allowed based on Resolution 94-13.

In 2010, the District passed a ballot measure (Measure G) to add a supplemental tax revenue stream to be used effectively July 01, 2010. These funds are a maximum of \$200 per parcel and are restricted to be used for police-related services only.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to General Manager/Chief of Police.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET  
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Capital Project	Total	Adjustment See Note (3, 8 & 12)	Statement of Net Position
<b>Assets</b>					
Cash and investments (Note 2)	\$ 1,750,137	\$ 128,129	\$ 1,878,266	\$ -	\$ 1,878,266
Investment (Restricted)-See Note 4	93,430	-	93,430	-	93,430
Receivables					
Supplemental taxes and Community Services District	50,064	-	50,064	-	50,064
Interest receivable	1,728	139	1,867	-	1,867
Reimbursements and other	40,290	-	40,290	-	40,290
Prepaid	38,803	-	38,803	-	38,803
<b>Capital Assets (Note 3)</b>					
Land	-	-	-	2,808,347	2,808,347
Vehicle and equipment	-	-	-	507,756	507,756
Building and improvement	-	-	-	1,618,818	1,618,818
Furniture & fixtures	-	-	-	28,412	28,412
Construction in progress	-	-	-	34,618	34,618
Accumulated depreciation	-	-	-	(1,139,895)	(1,139,895)
<b>Total Capital Asset</b>	-	-	-	3,858,056	(3,858,056)
Deferred Outflows of Resources-Deferred pensions (Note 12)	-	-	-	728,847	728,847
<b>Total Assets</b>	<u>\$ 1,974,452</u>	<u>\$ 128,268</u>	<u>\$ 2,102,720</u>	<u>\$ 4,586,903</u>	<u>\$ 6,689,623</u>
<b>Liabilities</b>					
Accounts payable	\$ 202,554	\$ -	\$ 202,554	\$ -	\$ 202,554
GASB 45 Accrual	4,078	-	4,078	-	4,078
Compensated absence	79,565	-	79,565	-	79,565
Accrued payable	15,008	-	15,008	-	15,008
Long term net pension liability	-	-	-	2,878,245	2,878,245
<b>Total Liabilities</b>	301,205	-	301,205	2,878,245	3,179,450
Deferred Inflows of Resources-Deferred pensions (Note 12)	-	-	-	412,768	412,768
<b>Fund Balances/Net Position</b>					
<b>Fund balances</b>					
Non-spendable	38,803	-	38,803	(38,803)	-
Restricted	167,332	-	167,332	(167,332)	-
Committed	-	128,268	128,268	(128,268)	-
Assigned	218,045	-	218,045	(218,045)	-
Unassigned	1,249,067	-	1,249,067	(1,249,067)	-
<b>Total Fund Balances</b>	1,673,247	128,268	1,801,515	(1,801,515)	-
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,974,452</u>	<u>\$ 128,268</u>	<u>\$ 2,102,720</u>		
<b>Net Position</b>					
Capital assets				3,858,056	3,858,056
Restricted				167,332	167,332
Unrestricted				(927,983)	(927,983)
<b>Total Net Position</b>				<u>\$ 3,097,405</u>	<u>\$ 3,097,405</u>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2016**

EXPENDITURES/EXPENSES	General	Capital Project	Total	Adjustment Note 3, 8	Statement of Activities
<b>Current expenditures/expenses</b>					
<b>Police Salary and Benefits</b>					
Salary-officers	\$ 945,959	\$ -	\$ 945,959	\$ -	\$ 945,959
Compensated absence	13,689	-	13,689	-	13,689
Overtime	98,724	-	98,724	-	98,724
Salary-non sworn	102,532	-	102,532	-	102,532
Uniform allowance	7,678	-	7,678	-	7,678
Safety equipment	791	-	791	-	791
Medical insurance - Active	163,436	-	163,436	-	163,436
Medical insurance - Retired	163,594	-	163,594	-	163,594
Medical insurance - Retired trust	35,541	-	35,541	-	35,541
Disability & life insurance	4,428	-	4,428	-	4,428
Social security/medicare	23,030	-	23,030	-	23,030
PERS district	368,679	-	368,679	(205,292)	163,387
PERS officers	71,488	-	71,488	-	71,488
Workers compensation	44,837	-	44,837	-	44,837
<b>Police Expenses</b>					
Expendable police supplies	5,836	-	5,836	-	5,836
Range/ammunition supplies	2,886	-	2,886	-	2,886
Crossing guard	10,890	-	10,890	-	10,890
Vehicle operation	25,010	-	25,010	-	25,010
Communications (RPD)	119,489	-	119,489	-	119,489
Radio maintenance	2,180	-	2,180	-	2,180
Prisoner/case expense/booking	16,866	-	16,866	-	16,866
Training	9,391	-	9,391	-	9,391
Recruiting	4,291	-	4,291	-	4,291
Reserve officers	191	-	191	-	191
Misc. dues, meals and travel	2,379	-	2,379	-	2,379
Utilities	11,032	-	11,032	-	11,032
Building repair	4,942	-	4,942	-	4,942
Office supplies	6,711	-	6,711	-	6,711
Telephone	6,429	-	6,429	-	6,429
Housekeeping	4,945	-	4,945	-	4,945
Publications	2,580	-	2,580	-	2,580
CAL ID	5,508	-	5,508	-	5,508
Community policing	5,655	-	5,655	-	5,655
Measure G administration	3,489	-	3,489	-	3,489
<b>Recreation Salary and Benefits</b>					
Park and recreation administration	7,945	-	7,945	-	7,945
Custodian	21,000	-	21,000	-	21,000
Social security/medicare	420	-	420	-	420
<b>Recreation Expenses</b>					
Community center utilities	5,743	-	5,743	-	5,743
Janitorial supplies	1,241	-	1,241	-	1,241
Community center repairs	5,964	-	5,964	-	5,964
Park O&M	54,401	-	54,401	-	54,401
Misc. park/rec expense	4,293	-	4,293	-	4,293
<b>District Expenses</b>					
Computer maintenance	25,226	-	25,226	-	25,226
Copier contract	4,742	-	4,742	-	4,742
Legal	263,482	-	263,482	-	263,482
Consulting	34,756	-	34,756	-	34,756
Accounting	46,618	-	46,618	-	46,618
Insurance	27,572	-	27,572	-	27,572
Police building lease	1	-	1	-	1
County expense	21,743	-	21,743	-	21,743
Waste/recycle	260	-	260	-	260
Miscellaneous	17,416	-	17,416	-	17,416
Depreciation	-	-	-	73,846	73,846
<b>Total current expenditures/expenses</b>	<b>2,837,929</b>	<b>-</b>	<b>2,837,929</b>	<b>(131,446)</b>	<b>2,706,483</b>
<b>Capital outlay</b>					
Equipment and furniture	45,427	-	45,427	(45,427)	-
Buildings and improvements	-	-	-	-	-
Construction in progress	13,931	-	13,931	(13,931)	-
<b>Total capital outlay</b>	<b>59,358</b>	<b>-</b>	<b>59,358</b>	<b>(59,358)</b>	<b>-</b>
<b>Total Expenditures/Expenses</b>	<b>2,897,287</b>	<b>-</b>	<b>2,897,287</b>	<b>(190,804)</b>	<b>2,706,483</b>

*The accompanying notes are an integral part of the financial statements.*

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2016  
(Continued)**

	General	Capital Project	Total	Adjustment Note 3, 8	Statement of Activities
<b>GENERAL REVENUES:</b>					
Property taxes	1,561,530	-	1,561,530	-	1,561,530
Special assessments	681,690	-	681,690	-	681,690
Measure G supplemental tax revenue	514,176	-	514,176	-	514,176
Assets seizure forfeit/WEST NET	18,526	-	18,526	-	18,526
Grants-COPS & other	100,000	-	100,000	-	100,000
Charges for services	3,370	-	3,370	-	3,370
Kensington Hilltop services reimb.	28,475	-	28,475	-	28,475
Special assignment revenue	12,237	-	12,237	-	12,237
West county crossing guard reimb.	10,515	-	10,515	-	10,515
POST reimbursement	5,762	-	5,762	-	5,762
Rents and fees	37,520	-	37,520	-	37,520
Investment income	4,056	430	4,486	-	4,486
Franchise fees	59,559	-	59,559	-	59,559
Other tax income	47,227	-	47,227	-	47,227
Supplemental workers' comp reimb.	29,354	-	29,354	-	29,354
Other income	14,299	-	14,299	-	14,299
Gain (loss) on asset sale	5,779	-	5,779	-	5,779
<b>Total Revenues</b>	<u>3,134,075</u>	<u>430</u>	<u>3,134,505</u>	<u>-</u>	<u>3,134,505</u>
Excess (deficiency) of Revenues Over Other (under) Expenditures	<u>236,788</u>	<u>430</u>	<u>237,218</u>	<u>190,804</u>	<u>428,022</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	21,076	-	21,076	-	21,076
Transfers out	(10,581)	-	(10,581)	-	(10,581)
<b>Total Other Financing Sources (Uses)</b>	<u>10,495</u>	<u>-</u>	<u>10,495</u>	<u>-</u>	<u>10,495</u>
<b>Change in Net Position</b>	<u>247,283</u>	<u>430</u>	<u>247,713</u>	<u>190,804</u>	<u>438,517</u>
<b>Fund Balances/Net Position, Beginning of Year</b>	<u>1,425,964</u>	<u>127,838</u>	<u>1,553,802</u>	<u>1,036,640</u>	<u>2,590,442</u>
<b>Prior Period Adjustment</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,446</u>	<u>68,446</u>
<b>Fund Balances/Net Position, Beginning of Year, Restated</b>	<u>1,425,964</u>	<u>127,838</u>	<u>1,553,802</u>	<u>1,105,086</u>	<u>2,658,888</u>
<b>Fund Balances/Net Position, End of Year</b>	<u>\$ 1,673,247</u>	<u>\$ 128,268</u>	<u>\$ 1,801,515</u>	<u>\$ 1,295,890</u>	<u>\$ 3,097,405</u>

*The accompanying notes are an integral part of the financial statements.*



**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2016**

	<b>Emergency Preparedness Fund</b>	<b>Kensington Park Reassessment District 2004-1 Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash and investments (Note 2)	\$ -	\$ 288,926	\$ 288,926
Interest receivable	-	127	127
Special assessments receivable	-	604,459	604,459
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 893,512</b>	<b>\$ 893,512</b>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 1	\$ 1
2004 Limited Obligation Improvement Bonds (Note 4)	-	720,967	720,967
Bond interest payable	-	10,214	10,214
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 731,182</b>	<b>\$ 731,182</b>
<b>Net Position</b>			
Reserved for Emergency Preparedness Council	\$ -	\$ -	\$ -
Reserved for Reassessment District 2004-1	-	162,330	162,330
<b>Total Net Position</b>	<b>\$ -</b>	<b>\$ 162,330</b>	<b>\$ 162,330</b>

*The accompanying notes are an integral part of the financial statements.*

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
STATEMENT OF CHANGES IN NET POSITION-FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Emergency Preparedness Fund</b>	<b>Kensington Park Reassessment District 2004-1 Fund</b>	<b>Total</b>
<b>ADDITIONS:</b>			
Special assessments	\$ -	\$ 177,747	\$ 177,747
Interest income	-	397	397
<b>Total Additions</b>	<u>-</u>	<u>178,144</u>	<u>178,144</u>
<b>DEDUCTIONS:</b>			
Bond administration charges	-	12,273	12,273
Bond expenses	-	31,532	31,532
Bond principal	-	125,718	125,718
Contract services	-	-	-
<b>Total Deductions</b>	<u>-</u>	<u>169,523</u>	<u>169,523</u>
Net increase (decrease) in fiduciary net position	-	8,621	8,621
Transfer in	-	(21,076)	(21,076)
Transfer out	69	10,512	10,581
<b>Net Position, Beginning of Year</b>	<u>(69)</u>	<u>164,273</u>	<u>164,204</u>
<b>Net Assets, End of Year</b>	<u>\$ -</u>	<u>\$ 162,330</u>	<u>\$ 162,330</u>

*The accompanying notes are an integral part of the financial statements.*

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General Fund Budget</u>	<u>General Fund Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues:</b>			
Property taxes	\$ 1,527,750	\$ 1,561,530	\$ 33,780
Special assessments	680,000	681,690	1,690
Measure G supplemental tax revenue	514,177	514,176	(1)
Assets seizure forfeit/WEST NET	-	18,526	18,526
Grants-COPS & other	-	100,000	100,000
Charges for services	1,500	3,370	1,870
Kensington Hilltop services reimb.	18,900	28,475	9,575
Special assignment revenue	-	12,237	12,237
West county crossing guard reimb.	10,830	10,515	(315)
POST reimbursement	-	5,762	5,762
Rents and fees	33,000	37,520	4,520
Investment income	1,600	4,056	2,456
Franchise fees	48,800	59,559	10,759
Other tax income	33,000	47,227	14,227
Supplemental workers' comp reimb.	17,194	29,354	12,160
Other income	25,500	14,299	(11,201)
Gain (loss) on asset sale	-	5,779	5,779
<b>Total Revenues</b>	<u>2,912,251</u>	<u>3,134,075</u>	<u>221,824</u>
<b>Expenses:</b>			
Police Salary and Benefits	2,053,670	2,044,406	9,264
Police Other Expenses	325,269	250,700	74,569
Recreation Salary and Benefits	31,147	29,365	1,782
Recreation Expenses	96,716	71,642	25,074
District Expenses	271,119	441,816	(170,697)
Capital Outlay	81,000	59,358	21,642
<b>Total Expenditures</b>	<u>2,858,921</u>	<u>2,897,287</u>	<u>(38,366)</u>
Excess of Revenues over (under) Expenditures	<u>\$ 53,330</u>	<u>\$ 236,788</u>	<u>\$ 183,458</u>

*The accompanying notes are an integral part of the financial statements.*

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Kensington Police Protection and Community Services District (the District) is presented to assist in understanding the District's financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

***Organization and Description of Funds***

The District was formed to provide police protection services and parks and recreation services. The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Currently, the District has two of these funds, a General Fund and Capital Project Fund. The District also maintains two fiduciary funds: (1) Emergency Preparedness Fund (used for expenses in conjunction with the emergency radio network) and (2) Kensington Park Reassessment District 2004-1 Fund (used to account for special assessment funds, see Note 4).

***Government-Wide Financial Statements***

The District's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of Governmental Activities for the District accompanied by a total column.

These 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 and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. 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.

The Government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenditures identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Government-Wide Financial Statements (Continued)***

Separate financial statements are provided for governmental funds. Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds are reported as separate columns in the governmental fund financial statements. No major funds are aggregated and presented in a single column. The District's general funds was its only major fund.

***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. Accompanying schedules are presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements.

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 Sheet. 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 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. Accordingly, 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 intergovernmental revenues, investment earnings and charges for services. Expenditures are generally recognized when incurred under the modified accrual basis of accounting.

The District has only four funds in fiscal year 2016, the General Fund, Capital Project Fund, and two fiduciary funds which are the Emergency Preparedness and the Kensington Park Reassessment District. A longer description is below.

1. General Fund - the General Fund is the operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
2. Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.
3. Emergency Preparedness Fund – This fiduciary fund is used to account for radios and batteries in the community to be used in case of earthquake or similar major emergency. The fund is supported by matching contributions from both the District and Kensington Fire Protection District.
4. Kensington Park Reassessment District 2004-1 - This debt service fund is used to account for financial resources to be used for the retirement of debt. The Kensington Park Reassessment Bond 2004-1, issued in June 2004 in defeasance of the 1994 special assessment bonds, has been determined to be an Agency Fund since the District is not obligated to repay the debt. The balance in the debt service fund has therefore been transferred to the Kensington Park Reassessment District 2004-1 Fund (see Note 4).

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Budgets and Budgetary Accounting***

The operating budget includes proposed expenditures and the means of financing them.

Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and Capital Projects Fund.

The District follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- 3020.1** A preliminary annual budget proposal shall be prepared by the General Manager on later than May 1.
- 3020.2** Prior to review by the Board of Directors, the Board's Finance Committee shall meet with the General Manager and review his preliminary annual budget proposal.
- 3020.3** The proposed preliminary annual budget, as reviewed and amended by the Finance Committee, shall be reviewed by the Board at its regular meeting in May.
- 3020.4** The proposed preliminary annual budget, as amended by the Board during its review, shall be adopted at its regular meeting in June. Any exceptions to this date must be approved by Board action, but in no event shall the preliminary annual budget be adopted later than July 1.
- 3020.5** The final annual budget shall be adopted no later than September 1. The General Manager shall publish the public notice required by Government Code section 61110(c).

***Encumbrances***

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and the Capital Projects Fund. All appropriations lapse at fiscal year-end.

***Cash and Investments***

Cash includes amounts in demand deposits as well as short-term investments. Investments are carried at market value. All investment is invested through the County of Contra Costa.

***Compensated Absences***

District employees are entitled to certain compensated absences based on their length of employment

***Fund Equity Reservations and Designations***

Reservations and designations of the ending fund balance indicate portions of fund balance not appropriable for expenditures or amounts legally segregated for a specific future use.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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 and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures during the reporting periods. Actual results could differ from those estimates.

*Implementation of New Accounting Principles*

The following Governmental Accounting Standards Board (GASB) Statements were implemented during the 2016 fiscal year:

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27 – The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014. The primary objective of this statement is to improve transparency of accounting and financial reporting for state and local governments pensions liability. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures.

GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No 27. The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68.

**NOTE 2— CASH AND INVESTMENTS**

The District maintains most of its cash in the County of Contra Costa treasury. Balances are stated at cost, which is approximately market value.

The District maintains cash investment accounts that are available for use by all funds. Investments made by the District are summarized below. The investments that are represented by specific identifiable investment securities are classified below according to credit risk:

Category 1—Investments that are insured or registered, or for which securities are held by the District or its agent in the District’s name.

Category 2—Uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the District’s name.

Category 3—Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District’s name.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2— CASH AND INVESTMENTS (Continued)**

A summary of the District's cash and investments at June 30, 2016 is as follows:

	<b>Carrying Value</b>	<b>Market Value</b>
<b><u>Governmental Funds</u></b>		
<b><u>Category 1:</u></b>		
Cash in checking accounts	\$ 2,823	\$ 2,823
Petty cash	100	100
	2,923	2,923
 <b><u>Uncategorized:</u></b>		
County Treasury	1,968,773	1,968,773
<b>Total Governmental Funds</b>	1,971,696	1,971,696
 <b><u>Fiduciary Funds</u></b>		
<b><u>Category 1:</u></b>		
Cash in checking accounts	-	-
 <b><u>Uncategorized:</u></b>		
County Treasury	288,926	288,926
<b>Total Fiduciary Funds</b>	288,926	288,926
<b>Total Governmental Funds</b>	\$ 2,260,622	\$ 2,260,622

The cash and investments by fund is as follows:

General Fund	\$ 1,843,567
Capital Project Fund	128,129
	\$ 1,971,696
Emergency Preparedness Fund	\$ -
2004-1 Park Reassessment Bond Fund	\$ 288,926

The District's cash fund in the County Treasury is not categorized by risk category because the District's share is not evidenced by specifically identifiable securities.



**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2— CASH AND INVESTMENTS (Continued)**

*Deposits*

The California Government Code requires California banks and savings and loan associations to secure a local governmental agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 100% of the agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits. The agency may waive collateral requirements for deposits, which are fully insured up to \$250,000 by federal deposit insurance.

**NOTE 3—CAPITAL ASSETS**

The District's capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Capital assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is charged to governmental activities by function.

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

Depreciation of capital assets in service 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 year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

Vehicles	5 years
Furniture and fixtures	5 years
Building and improvements	20-40 years
Machinery and equipment	5-10 years

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3— CAPITAL ASSETS (Continued)**

A summary of changes in general fixed assets follows:

	<u>Balance 6/30/15</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/16</u>
Non-Depreciable Assets				
Land	\$ 2,808,347	\$ -	\$ -	\$ 2,808,347
Depreciable Assets				
Building & improvements	1,638,902	14,534	-	1,653,436
Vehicles & equipment	514,821	44,821	51,886	507,756
Furniture & fixtures	30,392	-	1,980	28,412
<b>Total Depreciable Asset:</b>	<u>4,992,462</u>	<u>59,355</u>	<u>53,866</u>	<u>4,997,951</u>
Accumulated Depreciation				
Building & improvements	588,832	43,382	-	632,214
Vehicles & equipment	502,122	29,727	51,886	479,963
Furniture/fixtures/improvements	28,961	737	1,980	27,718
<b>Total Accumulated Depreciation</b>	<u>1,119,915</u>	<u>73,846</u>	<u>53,866</u>	<u>1,139,895</u>
<b>Capital Assets Net of Depreciation:</b>	<u>\$ 3,872,547</u>	<u>\$ (14,491)</u>	<u>\$ -</u>	<u>\$ 3,858,056</u>

The current depreciation expense of \$73,846 was charged to police services.

**NOTE 4— SPECIAL ASSESSMENT DEBT**

*Kensington Park Reassessment District 2004-1 Refunding Bonds*

	<u>June 30, 2015</u>	<u>Adjustment</u>	<u>Payments</u>	<u>June 30, 2016</u>
2004 Limited Obligation Improvement Bonds	\$ 846,685	\$ -	\$ 125,718	\$ 720,967
	<u>\$ 846,685</u>	<u>\$ -</u>	<u>\$ 125,718</u>	<u>\$ 720,967</u>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 4— SPECIAL ASSESSMENT DEBT (Continued)**

***Kensington Park Reassessment District 2004-1 Refunding Bonds (Continued)***

The original 1994 Limited Obligation Improvement Bonds were issued pursuant to the provisions of the Improvement Bond Act of 1915 to finance costs of acquisition of land to be used as a park and installation of certain recreational improvements. The bonds are limited obligations of the District and are equally and ratably secured by unpaid assessments on certain parcels of property located within the Kensington Park Assessment District. The Kensington Park Assessment District was created by the District pursuant to the Landscaping and Lighting Act of 1972 specifically to finance the park landscaping and lighting project. The unpaid assessments represent fixed liens on each assessed parcel. Annual installments of the unpaid assessments together with interest thereon, sufficient to meet the scheduled debt service, are included in the tax bills for the assessed properties and the receipts are deposited into a redemption fund used to pay interest and principal on the bonds as they come due. The District is in no way liable for the repayment of the improvement bonds. The District is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings.

On June 17, 2004, the District issued \$1,868,600 of 2004 Limited Obligation Improvement Bonds for the purpose of refunding the \$2,050,000 of outstanding 1994 Limited Obligation Improvement Bonds. The refunding took advantage of lower interest rates which were available and resulted in reductions in debt service requirements over the life of the new debt. The net proceeds of \$1,868,600 from these bonds were transferred to a trustee and placed in an irrevocable trust to redeem the 1994 Limited Obligation Improvement Bonds. These funds were invested in U.S. government securities to provide for the redemption price and interest through the call date. The 2004 bond bears annual interest at a fixed rate of 4.25%. The bond was issued as a fully registered note in a single denomination of \$1,868,600. Interest on the bond becomes payable commencing March 2, 2005, and semiannually thereafter on each September 2 and March 2 until maturity. The bond maturity date is September 2, 2020.

The following funds have been created: (1) Reserve Fund established in the initial amount of \$93,430 (with separated county investment account) from the bond proceeds; (2) Redemption Fund, established to collect all payments of principal and interest installments on the assessments; (3) cost of issuance fund, established to pay issuance costs and (4) administrative expense fund, established to reimburse payment of administrative expenses. The District's liability to advance funds to the Redemption Fund in the event of delinquent installments shall not exceed the balance in the Reserve Fund.

As of June 30, 2016, future debt service payments were as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 133,201	\$ 27,811	\$ 161,012
2018	140,485	21,995	162,480
2019	147,469	15,876	163,345
2020	149,165	9,573	158,738
2021	150,662	3,202	153,864
	<u>\$ 720,982</u>	<u>\$ 78,457</u>	<u>\$ 799,439</u>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 5— DEFINED BENEFIT PENSION PLAN**

***PERS plan description***

The District has a defined benefit pension plan (the “Plan”) which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public District 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 is established by State statutes within the Public Employees’ Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through board action. CalPERS issues a separate comprehensive annual financial report. Copies of the report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, CA 95814.

***Funding policy***

Effective January 1, 2013, the California Public Employees’ Pension Reform Act (PEPRA) went into effect. Any new CalPERS hires will be covered by this mandate. The District currently participates in a two-tiered retirement funding system.

A Tier 1 (Classic) CalPERS employee is required to contribute 9% of his/her annual covered salaries. The District has historically paid this tax deferred contribution required of Classic employees on their behalf and for their accounts. Effective March 01, 2016, determined by the current MOU, each Classic employee began contributing 2% individually and The District paid the remaining 7% of the Classic employee’s required contribution. Effective March 01, 2017, that same 9% will be paid for as follow: 4% by the Classic employee and The District will contribute 5%.

In addition, for Tier 1 (Classic) CalPERS employees, The District is required to contribute the actuarially determined 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 contribution requirements for the plan members are established by State statute. For the fiscal year ending June 30, 2016, that contribution was 18.524% plus a flat contribution for CalPERS’ Unfunded Actuarial Liability (UAL) of \$204,742. The District took advantage of paying the UAL in one lump sum for a discounted amount of \$197,471, saving the District \$7,271. For the fiscal year ending June 30, 2017, the District’s contribution rate will be 19.536% and a flat UAL of \$229,208.

Although PEPRA has been effective of hires as of January 01, 2013, The District’s first Tier 2 (PEPRA) CalPERS employee was hired in October 2015. A PEPRA employee is required to pay his/her own officer’s portion contribution. The District will not pick up any of that portion. For the fiscal year ending June 30, 2016, the PEPRA employee’s contribution was 11.5%. The District’s own contribution rate was 11.153%. There is no UAL contribution for PEPRA employees. For the year ending June 30, 2017, the PEPRA employee’s contribution will remain at 11.5%, but The District’s contribution rate will be 12.082%. As before, there will be no UAL contribution.

A Classic employee’s defined benefit is calculated using 3% at 50 years of age formula. A PEPRA employee’s defined benefit is calculated using a 2.7% at 57 years of age formula.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 5— DEFINED BENEFIT PENSION PLAN (Continued)**

*Actuarial Assumptions*

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

- Discount Rate/Rate of Return – 7.5%, net of investment expense
- Inflation Rate – 2.75%
- Salary increases – Varies by Entry Age and Service
- COLA Increases – up to 2.75%
- Post-Retirement Mortality – Derived using CalPERS' Membership Data for all Funds
- The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2013.

The long-term expected rate of return on pension plan investments (7.5%) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	47.0%	5.71%
Global Fixed Income	19.0%	2.43%
Inflation Sensitive	6.0%	3.36%
Private Equity	12.0%	6.95%
Real Estate	11.0%	5.13%
Infrastructure and Forestland	3.0%	5.09%
Liquidity	2.0%	(1.05)%

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contribution from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund's fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investment, and was applied to all periods of projected benefit payments to determine the total pension liability.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 5— DEFINED BENEFIT PENSION PLAN (Continued)**

*Actuarial Assumptions (Continued)*

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65%) or 1 percentage point higher (8.65%) than the current rate:

	1% Decrease 6.65%	Current Discount Rate 7.65%	1% Increase 8.65%
District's proportionate share of the net pension plan liability	\$ 4,539,494	\$ 2,878,245	\$ 1,516,052

Detailed information about the pension fund's fiduciary net position is available in the separately issued CALPERS comprehensive annual financial report which may be obtained by contacting PERS.

**NOTE 6— LEASE COMMITMENT**

The District entered into an agreement as a lessee to occupy office space from Kensington Fire Protection District for a three-year period through June 30, 2017. This space is leased for \$1 per year. In addition, the District leases equipment through two separate operating leases. Rent expense including operating leases for fiscal year ended June 2016 was \$2,126.

The minimum future lease commitments are as follows:

Fiscal Year Ended June 30,	Amount
2017	\$ 2,126
2018	2,125
2019	2,125
<b>Total</b>	<b>\$ 6,376</b>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 7— INSURANCE POOLS**

*Special District Risk Management Association*

The District is a member of the Special District Risk Management Association (SDRMA). SDRMA was organized to provide certain levels of liability insurance coverage, property insurance coverage, claims management, risk management services and legal defense to its participating members. The financial results of SDRMA are not included in the accompanying basic financial statements because the District does not have oversight responsibility.

SDRMA provides the District with property and general liability coverage to the limits as set forth in the agreement. The annual member contribution was \$27,572 for fiscal year 2016 coverage. Members are subject to dividends and/or assessments in accordance with the provisions of the Joint Powers agreement. At June 30, 2016 SDRMA could not confirm the status of any incurred but not reported claims.

The Special Districts Workers' Compensation District (SDWCD) was formed by an agreement between certain public agencies to provide workers' compensation coverage. SDWCD is governed by a Board of Directors, which is comprised of officials appointed by member agencies. The annual premium paid for fiscal year 2016 coverage was \$41,083.

The District currently reports all of its risk management activities in its General Fund. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

The District maintains a workers' compensation fund, which is self-insured for the first \$100,000 of loss per accident. Excess coverage is purchased from an outside insurance carrier up to statutory limits.

**NOTE 8— EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL  
FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION**

Total fund balance of the District's governmental funds differs from the net position of governmental activities reported in the statement of net position primarily as a result of the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet. When capital assets (land, building, and equipment) that are used in governmental activities are purchased or constructed, the costs of those assets are reported as capital outlay expenditures in the governmental fund. However, the statement of net position includes the capital assets, net of accumulated depreciation, among the assets of the District. Also, the adjustments related to the new accounting pronouncement GASB 68 are in the statement of net position and not the fund financial statements.



**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 8— EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL  
FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION (Continued)**

Differences	Balance June 30, 2016
Net capital assets	\$ 3,858,056
Deferred outflows of resources	728,847
Deferred inflows of resources	(412,768)
Net pension liability	(2,878,245)
 Net difference	 \$ 1,295,890

The net change in fund balance for the governmental funds differs from the "change in net position" as a result of the long-term economic focus of the statement of activities versus the current financial resources focus of the general fund. When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as capital outlay expenditures in the general fund. Also, when capital assets are sold, the resources received are reported as proceeds from sale of capital assets in the respective fund. However, in the statement of activities, the cost of those assets purchased or constructed is allocated over their estimated useful lives and reported as depreciation expense. The resources received from the sale of capital assets offset against the net carrying value of the assets sold and reported as a gain or loss in the statement of activities. As a result, the fund balance decreased by the amount of financial resources expended and increased by the amount of financial resources received, whereas net position decreased by the amount of depreciation expense on equipment items during the year and increased or decreased by the amount of net gain or loss on any disposals of capital assets.

In addition, the adjustments required by GASB 68, netting (\$2,562,166), are not included in the fund financial statements.

Differences	Balance June 30, 2016
Capital Outlay	\$ (59,358)
Depreciation expense	73,846
 Net difference	 \$ 14,488



**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2016**

**NOTE 9— OTHER POST-RETIREMENT HEALTH BENEFITS**

Governmental Accounting Standards Board (GASB) standard 45 directs how local governments account for and report other post-employment benefits (OPEB) that are separate from pension benefits. The District has calculated the medical benefit plan OPEB requirements and described the methodology and amounts from a third party consultant's report. These calculations cover the OPEB of all District eligible employees.

The District provides post-retirement health benefits (medical, dental, and vision) to all eligible employees who have retired from the District and to their spouses, surviving spouses and dependent children. During fiscal year 2010, the district adopted GASB 45.

**Contributions Required and Contributions Made**

The Plan's funding policy provides guidelines for District contributions at actuarially determined required amounts sufficient to accumulate the necessary assets to pay benefits when due as specified. The retirees and spouses, surviving spouses and dependent children's healthcare benefits plan requires the District to use the Baseline Cost Method. The actuarial study projected the plan population to estimate the cost of future benefits. The actuarial study accrued total OPEB liability comes to \$2,439,023 on the valuation date of June 30, 2015 (with two manually calculated increases of 2.75% at the direction of the actuary).

Significant assumptions used to compute contribution requirements from the latest unaudited actuarial are as follows:

Valuation date:	June 30, 2013
Actuarial cost method:	Entry Age Normal Cost Method
Discount rate used in valuation:	7%
Actuarial assumptions:	The annual medical premium trend rate is 4% increases.

**Schedule of Employer Annual Required Contributions**

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contribution</u>
2015	\$ 193,806
2016	199,136

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 9— OTHER POSTRETIREMENT HEALTH BENEFITS (Continued)**

**Schedule of Employer Annual Required Contributions (Continued)**

	<b>June 30, 2016</b>
Actuarial accrued liability (AAL)	\$ 2,439,023
Less: Unamortized initial UAAL	(2,679,856)
Less: Actuarial value of assets	(670,646)
Residual actuarial accrued liability	\$ (911,479)
 Initial UAAL remaining amortization period	 30 years
Remaining amortization period for balance of UAAL	24 years
 Amortization factor based on 7% discount rate and 4% inflation rate of health premiums. Payroll increase of 2.75% per year.	
Initial Annual level amortization of unfunded AAL	\$ 179,480
Residual unfunded AAL	(43,109)
Normal cost	62,765
Annual required contribution (ARC)	\$ 199,136
 <b>2015/2016</b>	
Annual required contribution	\$ 199,136
Contribution made	(163,595)
Increase (decrease) in net OPEB obligation	35,541
Net OPEB obligation, beginning of year	(31,463)
Net OPEB obligation (asset), end of year	\$ 4,078

**NOTE 10 – COMPENSATED ABSENCES**

Amounts due to employees for compensated absences as of June 30, 2016 were as follows:

Vacation	\$ 79,565
Total compensated absences	\$ 79,565

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 11 – FUND BALANCES**

GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” was issued in February of 2009. This statement changes the presentation of the fund balance section of the balance sheet. The Statement No. 54 presentation will help to clarify the fund balance amounts of the governmental funds and will aid readers of the financial statements to better understand the different levels of constraints placed on fund balance. Fund Balances for all the major and non-major governmental funds as of June 30, 2016 were as follows:

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
<b>Nonspendable:</b>			
Prepaid expenses	\$ 38,803	\$ -	\$ 38,803
Subtotal	<u>38,803</u>	<u>-</u>	<u>38,803</u>
<b>Restricted for:</b>			
Bay View	73,902	-	73,902
Bond reserve fund (Fiduciary)	93,430	-	93,430
Subtotal	<u>167,332</u>	<u>-</u>	<u>167,332</u>
<b>Committed to:</b>			
Capital projects	-	128,268	128,268
Subtotal	<u>-</u>	<u>128,268</u>	<u>128,268</u>
<b>Assigned to:</b>			
Park building	218,045	-	218,045
Subtotal	<u>218,045</u>	<u>-</u>	<u>218,045</u>
<b>Unassigned</b>	<u>1,249,067</u>	<u>-</u>	<u>1,249,067</u>
<b>Total</b>	<u>\$ 1,673,247</u>	<u>\$ 128,268</u>	<u>\$ 1,801,515</u>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 11 – FUND BALANCES (Continued)**

Under GASB 54 fund balances are now broken out in five categories:

- **Nonspendable Fund Balance** – this fund balance classification includes amounts that cannot be spent because they are either not in spendable form (i.e. – prepaid expenses) or legally or contractually required to be maintained intact.
- **Restricted Fund Balance** – this fund balance classification should be reported when there are constraints placed on the use of resources externally (by creditors, grant sources, contributors, etc.) or imposed by law or enabling legislation. It is the District’s policy to first use restricted resources, where available.
- **Committed Fund Balance** – this fund balance classification can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority (i.e. – fund balance designations passed by board resolution).
- **Assigned Fund Balance** – this fund balance classification includes amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed.
- **Unassigned Fund Balance** – this fund balance classification is the residual classification for the general fund.

**NOTE 12 – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

Pursuant to GASB Statement No. 63, the District recognizes deferred outflows of resources as well as deferred inflows of resources. They represent the unamortized portions of changes to net pension liability to be recognized in future periods in a systematic and rational manner. They will be recorded on the Statement of Net Assets.

Deferred outflows of resources is a consumption of net assets. It is similar to a prepaid asset. The District has one item that is reportable as deferred outflows of resources which is related to pensions. The total is \$728,847. Any monies contributed to the pension plan made after the measurement date are classified as deferred outflows of resources. The \$728,847 will be recognized as a reduction of the net pension liability in the fiscal year-end June 30, 2017.

Deferred inflows of resources is an acquisition of net assets. The District has one item that is reportable as deferred inflows of resources which is related to pensions. The total is \$412,768. Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds will therefore include deferred inflows of resources for amounts that have been earned, but are not available to finance expenditures in the current period.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 12 – DEFERRED OUTFLOWS AND (INFLOWS) OF RESOURCES (Continued)**

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ (195,044)
2018	(193,908)
2019	(169,061)
2020	145,245
<b>Total</b>	<b>\$ (412,768)</b>

**NOTE 13 – SUBSEQUENT EVENTS**

At the time of the audit, Kensington Police Protection and Community Services District has evaluated all subsequent events through April 28, 2017, the date the financial statements were available to be issued, and determined that there is no material impact from the subsequent events.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS  
FOR THE YEAR ENDED JUNE 30, 2016**

Kensington Police Protection and Community Services District – Schedule of the District’s proportionate share of the Net Pension Liability:

Last 10 Fiscal Years\*:

	FY 2015-16
District's proportion of the net pension liability	0.04193%
District's proportionate share of the net pension liability	\$ 2,878,245
District’s covered-employee payroll (measurement year as of FY 2014-15)	986,908
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	291.64%
Plan Fiduciary net position as a percentage of the total pension liability	78.40%

CALPERS – Schedule of District contributions

Last 10 Fiscal Years\*:

	FY 2015-16
Actuarially determined contribution	\$ 368,679
Total actual contributions	(368,679)
Contribution deficiency (excess)	\$ -
District’s covered-employee payroll	\$ 943,891
Contribution as a percentage of covered-employee payroll	39.06%

*\*Amounts presented above were determined as of 6/30/2015. Additional years will be presented as they become available.*

**Independent Auditor's 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  
Kensington Police Protection and Community Services District  
Kensington, California

I have audited the financial statements of the Kensington Police Protection and Community Services District (the District), as of and for the fiscal year ended June 30, 2016, and have issued my report thereon dated April 28, 2017. I conducted my 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 my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

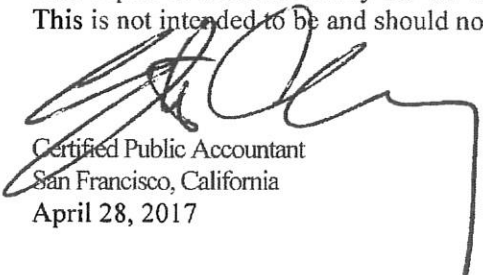
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

My 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 I consider to be material weaknesses, as defined above.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 and others within the District. This is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant  
San Francisco, California  
April 28, 2017



**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2016**

<u>Findings</u>	<u>Present Status</u>	<u>Explanation if not fully implemented</u>
None	N/A	N/A

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

2016 Finding

None