

**KENSINGTON POLICE PROTECTION AND
COMMUNITY SERVICES DISTRICT**

Basic Financial Statements and Independent Auditor's Report for the
Year ended June 30, 2009

KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
 Basic Financial Statements
 and Required Supplementary Information
 for the Fiscal Year Ended June 30, 2009

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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 basic financial statements of the governmental activities and each major fund of the Kensington Police Protection and Community Services District (District), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

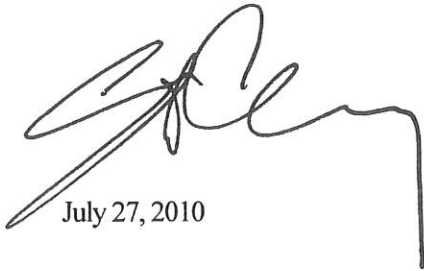
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2009, and the changes in its financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 27, 2010, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Independent Auditor's Report (continued)

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to be "J. R. [unclear]", written in a cursive style. The signature is positioned above the date.

July 27, 2010

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Required Supplementary Information)**

This discussion and analysis of the Kensington Police Protection and Community Service District's fiscal performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009. Please review it in conjunction with the transmittal letter and the basic financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

From the Statement of Net Assets

- Total net assets for the years ended June 30, 2009 and 2008 are \$5,881,196 and \$6,015,041, respectively. This is a 2.23% decrease.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, are \$1,895,241.

From the Governmental Fund Financial Statements

Our General Fund balance decreased by \$63,925.

- Property tax revenues (including special tax revenue for police services) for fiscal years ended June 30, 2009 and 2008 were \$1,923,865 and \$1,886,000, respectively. This is a 2.01% increase.

OVERVIEW OF FINANCIAL STATEMENTS

The District's basic financial statements are comprised 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 Assets and the Statement of Activities and Changes in Net Assets.

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

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

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Government-wide financial statements (continued)

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 7 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 assets serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$5,881,196 as of June 30, 2009 and \$6,015,041 as of June 30, 2008. This number is comprised of two components:

	June 30, 2009	June 30, 2008
Investment in capital assets, net of debt	\$ 3,985,955	\$ 4,058,244
Unrestricted assets	1,895,241	1,956,797
Total net assets	\$ 5,881,196	\$ 6,015,041

Investment in capital assets consists of fixed assets less any related debt that is still outstanding.

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, 2009**

GOVERNMENTAL FUNDS ANALYSIS

The District's largest source of revenue is derived 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-controllers 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, 2009 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 New Park maintenance only.

In fiscal year ended June 30, 2009, the District was the beneficiary of the COPS Grant minimum allocation of \$100,000. The funds must be used for front line equipment/services and all expenditures have been approved by the District Board of Directors.

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 is for services and supplies. That would include items such as vehicle maintenance, including the purchase of gasoline. This is the support structure for the police department.

Other reserved funds:

Reserved for compensated absences payable—\$57,544

COMMENTS ON BUDGET COMPARISONS

Actual revenues exceeded budgeted revenues by \$46,086.

Actual expenditures were less than final budgeted expenditures by \$324,456, mostly due to not moving forward with capital projects as budgeted. These include park restroom, annex renovation, patrol car and in-car video.

These two differences added together equal a positive variance of \$370,542.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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, and 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, \$90 per year for multiple unit residential, \$135 per year for commercial and institutional property and \$45 per year for miscellaneous improved property.

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, \$180 per year for commercial and institutional property and \$90 per year for miscellaneous improved property.

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, \$315 per year for commercial and institutional, \$210 per year for miscellaneous improved property and \$63 per year for unimproved property.

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, \$450 per year for multiple units residential, \$450 per year for commercial and institutional, \$300 per year for miscellaneous improved property and \$90 per year for unimproved property. An increase of tax was voted and passed.

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.

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 Greg Harman.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>General Fund</u>	<u>Capital Project</u>	<u>Total</u>	<u>Adjustment (Note 9)</u>	<u>Statement of Net Assets</u>
Assets					
Cash and investments	\$ 1,803,360	\$ 125,154	\$ 1,928,514	\$ -	\$ 1,928,514
Receivables					
Supplemental taxes and Community Services District	12,531	-	12,531	-	12,531
Interest receivable	4,660	370	5,030	-	5,030
Grant receivable	39,575	-	39,575	-	39,575
Reimbursements and other	6,000	-	6,000	-	6,000
Prepaid	1,092	-	1,092	-	1,092
Capital assets					
Land	-	-	-	2,808,347	2,808,347
Vehicle and equipment	-	-	-	475,391	475,391
Building and improvement	-	-	-	1,472,602	1,472,602
Furniture & fixtures	-	-	-	28,396	28,396
Accumulated depreciation	-	-	-	(798,781)	(798,781)
Total assets	<u>\$ 1,867,218</u>	<u>\$ 125,524</u>	<u>\$ 1,992,742</u>	<u>\$ 3,985,955</u>	<u>\$ 5,978,697</u>
Liabilities					
Accounts payable	\$ 36,629	\$ -	\$ 36,629	\$ -	\$ 36,629
Compensated absence	57,544	-	57,544	-	57,544
Accrued payable	3,328	-	3,328	-	3,328
Lease payable	-	-	-	-	-
Total liabilities	<u>\$ 97,501</u>	<u>\$ -</u>	<u>\$ 97,501</u>	<u>\$ -</u>	<u>\$ 97,501</u>
Fund balances/net assets					
Fund balances					
Reserved for					
Compensated absence	\$ 57,544	\$ -	\$ 57,544	\$ (57,544)	\$ -
Unreserved for					
Undesignated	1,712,173	125,524	1,837,697	(1,837,697)	-
Total fund balances	<u>1,769,717</u>	<u>125,524</u>	<u>1,895,241</u>	<u>(1,895,241)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,867,218</u>	<u>\$ 125,524</u>	<u>\$ 1,992,742</u>		
Net assets					
Capital assets				3,985,955	3,985,955
Unrestricted				-	1,895,241
Total net assets				<u>\$ 3,985,955</u>	<u>\$ 5,881,196</u>

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, 2009**

	General	Capital Project	Total	Adjustment (Note 10)	Statement of Activities
EXPENDITURES/EXPENSES					
Current expenditures/expenses					
Police Salary and Benefits					
Salary-Officers	\$ 878,273	\$ -	\$ 878,273	\$ -	\$ 878,273
Compensated Absence	(9,517)	-	(9,517)	-	(9,517)
Overtime	39,006	-	39,006	-	39,006
Salary-Non sworn	31,705	-	31,705	-	31,705
Uniform Allowance	8,033	-	8,033	-	8,033
Safety Equipment	2,047	-	2,047	-	2,047
Medical Insurance	225,531	-	225,531	-	225,531
Disability & Life insurance	6,725	-	6,725	-	6,725
Social Security/Medicare	17,485	-	17,485	-	17,485
PERS District	258,854	-	258,854	-	258,854
PERS Officers	80,903	-	80,903	-	80,903
Workers Compensation	63,229	-	63,229	-	63,229
Police Expenses					
Expendable Police Supplies	714	-	714	-	714
Range/Ammunition Supplies	1,134	-	1,134	-	1,134
Vehicle Operation	42,732	-	42,732	-	42,732
Communications (RPD)	117,839	-	117,839	-	117,839
Prisoner/Case Exp/Booking	2,860	-	2,860	-	2,860
Training	14,479	-	14,479	-	14,479
Recruiting	3,090	-	3,090	-	3,090
Reserve Officers	1,851	-	1,851	-	1,851
Meals and Travel	3,949	-	3,949	-	3,949
Utilities	7,864	-	7,864	-	7,864
Building Repair	2,244	-	2,244	-	2,244
Office Supplies	6,198	-	6,198	-	6,198
Telephone	10,857	-	10,857	-	10,857
Housekeeping	3,754	-	3,754	-	3,754
Publications	2,410	-	2,410	-	2,410
West-Net/Cal	12,296	-	12,296	-	12,296
Community Policing	3,320	-	3,320	-	3,320
COPS Special Fund	49,439	-	49,439	-	49,439
Consulting	9,504	-	9,504	-	9,504
Recreation Salary and Benefits					
Park and Recreation Administration	9,583	-	9,583	-	9,583
Custodian	21,000	-	21,000	-	21,000
Social Security/Medicare	764	-	764	-	764
Recreation Expenses					
Community Center Utilities	3,542	-	3,542	-	3,542
Janitorial Supplies	1,169	-	1,169	-	1,169
Community Center Repairs	791	-	791	-	791
Building E Repair	1,350	-	1,350	-	1,350
Annex Utilities	270	-	270	-	270
Park O&M	38,575	-	38,575	-	38,575
Misc. Park/Rec Expense	3,593	-	3,593	-	3,593
District Expenses					
Computer Maintenance	20,575	-	20,575	-	20,575
Legal	85,737	-	85,737	-	85,737
Accounting	13,722	-	13,722	-	13,722
Equipment Rental	3,875	-	3,875	-	3,875
Insurance	28,603	-	28,603	-	28,603
Election	5,307	-	5,307	-	5,307
MCI Fund/KFPD Maintenance	11,457	-	11,457	-	11,457
County Expense	19,486	-	19,486	-	19,486
Waste/Cycle	5,113	-	5,113	-	5,113
Miscellaneous	11,017	-	11,017	-	11,017
Depreciation	-	-	-	95,780	95,780
Total current expenditures/expenses	2,184,337	-	2,184,337	95,780	2,280,117
Capital outlay					
Equipment and furniture	3,061	-	3,061	(3,061)	-
Buildings and improvements	22,130	-	22,130	(22,130)	-
Total capital outlay	25,191	-	25,191	(25,191)	-
Bad Debt	-	-	-	1,700	1,700
Total expenditures/expenses	2,209,528	-	2,209,528	72,289	2,281,817

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, 2009
(continued)**

	General	Capital Project	Total	Adjustment (Note 10)	Statement of Activities
GENERAL REVENUES:					
Property Taxes	1,243,448	-	1,243,448	-	1,243,448
Special Assessments	680,340	-	680,340	-	680,340
Grants	100,000	-	100,000	-	100,000
Charges for Services	8,067	-	8,067	-	8,067
Rents and Fees	24,923	-	24,923	-	24,923
Investment Income	26,676	2,134	28,810	-	28,810
Franchise Fees	21,040	-	21,040	-	21,040
Other Tax Income	29,357	-	29,357	-	29,357
Other Income	12,411	-	12,411	-	12,411
Private Contributions	250	-	250	-	250
Total Revenues	<u>2,146,512</u>	<u>2,134</u>	<u>2,148,646</u>	<u>-</u>	<u>2,148,646</u>
Excess (deficiency) of Revenues Over Other (under) Expenditures	<u>(63,016)</u>	<u>2,134</u>	<u>(60,882)</u>	<u>(72,289)</u>	<u>(133,171)</u>
Other Financing Sources (Uses)					
Transfers In	(7,912)	-	(7,912)	-	(7,912)
Transfers Out	7,003	-	7,003	-	7,003
Total Other Financing Sources (uses)	<u>(909)</u>	<u>-</u>	<u>(909)</u>	<u>-</u>	<u>(909)</u>
Change in Net Assets	<u>(63,925)</u>	<u>2,134</u>	<u>(61,791)</u>	<u>(72,289)</u>	<u>(134,080)</u>
Fund Balances/Net Assets, beginning of year	1,833,407	123,390	1,967,797	4,058,244	6,015,276
Prior Year Adjustment	<u>235</u>	<u>-</u>	<u>235</u>	<u>-</u>	<u>235</u>
Fund balances/net assets, end of year	<u>\$ 1,769,482</u>	<u>\$ 125,524</u>	<u>\$ 1,906,006</u>	<u>\$ 3,985,955</u>	<u>\$ 5,881,196</u>

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

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2009**

	Emergency Preparedness Fund	Kensington Park Reassessment District 2004-1 Fund	Total
Assets			
Cash and investments	\$ 902	\$ 257,798	\$ 258,700
Interest receivable	-	351	351
Special assessments receivable	-	1,402,307	1,402,307
Total assets	\$ 902	\$ 1,660,456	\$ 1,661,358
Liabilities			
Accounts payable	\$ 451	\$ 2	\$ 453
2004 Limited Obligation Improvement Bonds	-	1,518,979	1,518,979
Bond interest payable	-	26,472	26,472
Total liabilities	\$ 451	\$ 1,545,453	\$ 1,545,904
Net Assets			
Reserved for Emergency Preparedness Council	\$ 451	\$ -	\$ 451
Reserved for Reassessment District 2004-1	-	115,003	115,003
Total net assets	\$ 451	\$ 115,003	\$ 115,454

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

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
STATEMENT OF CHANGES IN NET ASSETS-FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009**

	Emergency Preparedness Fund	Kensington Park Reassessment District 2004-1 Fund	Total
ADDITIONS:			
Special assessments	\$ -	\$ 180,503	\$ 180,503
Interest income	-	2,041	2,041
Total additions	-	182,544	182,544
DEDUCTIONS:			
Bond administration charges	-	8,730	8,730
Bond expenses	-	66,609	66,609
Bond principal	-	93,937	93,937
Contract services	-	-	-
Total deductions	-	169,276	169,276
Net increase (decrease) in fiduciary net assets	-	13,268	13,268
Transfer in	-	(6,259)	(6,259)
Transfer out	-	7,168	7,168
	-	-	-
Net assets, beginning of year	451	100,826	101,277
Net assets, end of year	\$ 451	\$ 115,003	\$ 115,454

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, 2009**

	General Fund Budget	General Fund Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Property Taxes	\$ 1,287,926	\$ 1,243,448	\$ (44,478)
Special Assessments	679,000	680,340	1,340
Grant Revenue	-	100,000	100,000
Investment Income	40,400	26,676	(13,724)
Rents and Fees	22,000	24,923	2,923
Charges for Services	3,500	8,067	4,567
Franchise Fees	20,800	21,040	240
Special Assessments-Park Maintenance	28,800	29,357	557
Other Income	15,000	12,411	(2,589)
Donations	3,000	250	(2,750)
	Total Revenues	2,146,512	46,086
Expenses:			
Police Salary and Benefits	1,700,433	1,602,274	98,159
Police Other Expenses	256,112	287,031	(30,919)
Recreation Salary and Benefits	38,237	31,347	6,890
Recreation Expenses	63,240	49,290	13,950
District Expenses	161,262	214,395	(53,133)
Capital Outlay	314,700	25,191	289,509
	Total Expenditures	2,209,528	324,456
Excess of Revenues over (under) Expenditures	\$ (433,558)	\$ (63,016)	

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, 2009

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. 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 Assets and a Statement of Activities and Changes in Net Assets. 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 Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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 assets 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 assets 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, 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 had no major funds in the fiscal year ended June 30, 2009.

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 assets as presented in these statements to the net assets 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 two funds in fiscal year 2009, the General Fund and Capital Project Fund.

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.

Debt Service Fund—The Debt Service Fund is used to account for financial resources to be used or 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) and is not part of fiscal year 2009 presentation.

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.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and budgetary accounting

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

1. During the month of May, the General Manager/ Chief of Police submits to the Board of Directors a preliminary operating budget. During the month of June the General Manager/Chief of Police submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is enacted through a motion to adopt the Budget.
3. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund and Capital Projects Fund.
4. Budgets for the General Fund and the Capital Projects Fund are adopted on a basis consistent with accounting principles generally accepted in the United States (US GAAP).

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.

Accounting pronouncements

Effective July 1, 2003, the District adopted the provisions of GASB No. 34, issued in June 1999; GASB No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus* (“GASB No. 37”) issued in June 2001 and GASB No. 38, *Certain Financial Statement Disclosures* (“GASB No. 38”) issued in June 2001.

The Governmental Accounting Standards Board Statement No. 34, “Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments” establishes a new financial reporting model for state and local governments. This new model requires that at a minimum the basic financial statements of a government include: (1) management’s discussion and analysis (MD&A) as a component of required supplementary information (RSI), (2) both government-wide financial statements and fund financial statements, (3) notes to the financial statements and (4) RSI other than MD&A.

KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated absences

District employees are entitled to certain compensated absences based on their length of employment. Payable for compensated absences is \$57,544 at June 30, 2009.

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.

Statement calculations and use of estimates

Due to rounding, column and row calculations may approximate actual figures. Approximations may result when decimal places are eliminated to present whole numbers.

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.

Reclassification

Certain accounts in the prior-year financial statements have been reclassified to conform to the presentation in the current-year financial statements.

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 a cash and investment that is 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, 2009**

NOTE 2—CASH AND INVESTMENTS (Continued)

A summary of the District's cash and investments at June 30, 2009 follows:

	Carrying Value	Market Value
<u>Governmental Funds (District Fund)</u>		
<u>Category 1:</u>		
Cash in Checking Accounts	\$ 3,725	\$ 3,725
Petty Cash	100	100
	3,825	3,825
<u>Uncategorized:</u>		
County Treasury	1,924,689	1,924,689
Total Governmental Fund (District Fund)	1,928,514	1,928,514
 <u>Fiduciary Funds</u>		
<u>Category 1:</u>		
Cash in Checking Accounts	902	902
<u>Uncategorized:</u>		
County Treasury	257,798	257,798
Total Fiduciary Fund	258,700	258,700
Total Governmental & Fiduciary Fund	\$ 2,187,214	\$ 2,187,214

The disposition of cash and investments by fund is as follows:

General Fund	\$ 1,803,360
Capital Projects Fund	125,154
	\$ 1,928,514
 Emergency Preparedness Fund	 \$ 902
 2004-1 Park Reassessment Bond Fund	 \$ 257,798

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, 2009

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 \$100,000 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 Assets 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, 2009**

NOTE 3—CAPITAL ASSETS (continued)

A summary of changes in general fixed assets follows:

	<u>Balance 6/30/08</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/09</u>
Non-Depreciable Assets				
Land	\$ 2,808,347	\$ -	\$ -	\$ 2,808,347
Depreciable Assets				
Building & Improvements	1,450,472	22,130	-	1,472,602
Vehicles & Equipment	472,330	3,061	-	475,391
Furniture & Fixtures	28,396	-	-	28,396
	<u>4,759,545</u>	<u>25,191</u>	<u>-</u>	<u>4,784,736</u>
Accumulated Depreciation				
Building & Improvements	289,025	42,322	-	331,347
Vehicles & Equipment	385,612	53,425	-	439,037
Furniture/Fixtures/Improvements	28,363	34	-	28,397
	<u>703,000</u>	<u>95,781</u>	<u>-</u>	<u>798,781</u>
Capital Assets Net of Depreciation	<u><u>\$ 4,056,545</u></u>	<u><u>\$ (70,590)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,985,955</u></u>

NOTE 4—SPECIAL ASSESSMENT DEBT

Kensington Park Reassessment District 2004-1 Refunding Bonds

		<u>June 30, 2008</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2009</u>
2004 Limited Improvement Bonds	Obligation	\$ 1,612,916	\$ -	\$ 93,937	\$ 1,518,979
		<u><u>\$ 1,612,916</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 93,937</u></u>	<u><u>\$ 1,518,979</u></u>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4—SPECIAL ASSESSMENT DEBT (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 semi-annually 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 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, 2009, future debt service payments were as follows:

<u>Fiscal year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 101,987	\$ 62,425	\$ 164,412
2011	105,483	58,016	163,499
2012	108,987	53,459	162,446
2013	112,176	48,759	160,935
2014	120,367	43,818	164,185
Thereafter	969,979	150,542	1,120,521
	<u>\$ 1,518,979</u>	<u>\$ 417,019</u>	<u>\$ 1,935,998</u>

Current Portion of Interest: \$62,425

Current Portion of Principal: \$101,987

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2009**

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

Active plan members in the Plan are required to contribute 9% of their annual covered salary. The District “picks up” the tax deferred contributions required of District employees on their behalf and for their accounts. 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. An employer contribution of 29.83% was required for fiscal 2009. The contribution requirements for the plan members are established by State statute. The employer contribution rate is established and may be amended by CalPERS. For 2009/2010, the required employer contribution rate is 30.55% and 2010/2011 is 27.92%.

Annual pension cost

For the fiscal year ended June 30, 2009, the total contributions amounted to \$339,757. Of this amount, \$258,854 was contributed by the District on behalf of the plan members. The District’s required contribution for fiscal year ended June 30, 2009 of \$269,432 was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: a) an 7.75% investment rate of return (net of administrative expenditures); and b) projected salary increases of 3.25% to 14.45%. Both a) and b) include an inflation component of 3% and anticipated payroll growth of 3.25%. The actuarial value of the plan’s assets were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a rolling period, depending on the size of investment gains and/or losses.

Three-year trend information for the Plan is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
2007	213,422	100%	\$ -
2008	230,734	100%	-
2009	258,854	100%	-

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2009**

NOTE 6—PAYABLE TO KENSINGTON FIRE PROTECTION DISTRICT (KFPD)

In July 1998, the District entered into a lease agreement as a lessee to occupy office space from KFPD for a ten-year period through June 30, 2009. The agreement provides for the following costs to be paid by the District:

- (1) The District will reimburse KFPD \$127,000 of the total building renovation costs incurred by KFPD to renovate its building. The obligation is payable in semi-annual installments (January 1 and July 1) of \$6,350 interest-free over a ten-year period expiring June 30, 2009. If the KFPD terminates the lease the balance of the obligation from the District shall be forgiven. If the District were to terminate the lease the balance of the obligation would become immediately due and payable. At June 30, 2009, the payable to KFPD is as follows:

(2)

	<u>June 30, 2008</u>	<u>Repayments</u>	<u>June 30, 2009</u>
Payable to KFPD	\$ <u>12,700</u>	\$ <u>12,700</u>	\$ <u>-</u>

The \$12,700 repayment is included in Police Principal Expense in the accompanying Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

The installment agreement has been paid in full and that the District has entered into a new lease with KFPD.

- (3) Annual maintenance fee of \$3,787, payable in semi-annual installments of \$1,894. KFPD deposits the payments into a separate bank account. Any unused amounts at fiscal year-end are reported as deposits receivable from KFPD. At June 30, 2009, deposits receivable from KFPD were \$3,051. Principal payments for last year were \$12,700.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 7—FUND EQUITY RESERVES AND DESIGNATIONS

Fund balance consists of reserved and unreserved amounts. Reserved fund balance represents that portion of a fund balance which has been appropriated for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved and is classified as designated or undesignated. Fund balance reserves and designations at June 30, 2009 are as follows:

<u>Fund balances</u>	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
Reserved			
Compensated Absences	\$ 57,544	\$ -	\$ 57,544
Total Reserved	<u>57,544</u>	<u>-</u>	<u>57,544</u>
Unreserved and Undesignated	1,712,173	125,524	1,837,697
Total Unreserved and Undesignated	<u>1,712,173</u>	<u>125,524</u>	<u>1,837,697</u>
 Total Fund Balance	 <u>\$ 1,769,717</u>	 <u>\$ 125,524</u>	 <u>\$ 1,895,241</u>

NOTE 8—INSURANCE POOLS

Special District Risk Management District

The District is a member of the Special District Risk Management District (“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 \$28,603 for fiscal 2009 coverage. Members are subject to dividends and/or assessments in accordance with the provisions of the Joint Powers agreement. At June 30, 2009, SDRMA could not confirm the status of any incurred but not reported (“IBNR”) claims.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 8—INSURANCE POOLS (Continued)

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 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 9—EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL
FUND BALANCE SHEET AND THE STATEMENT OF NET ASSETS**

Total fund balance of the District's governmental funds differs from the net assets of governmental activities reported in the statement of net assets primarily as a result of the long-term economic focus of the statement of net assets 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 assets includes the capital assets, net of accumulated depreciation, among the assets of the District.

Differences	Balance June 30, 2009
Cost of capital assets	\$ 4,784,736
Less: Accumulated depreciation	<u>798,781</u>
Net capital assets	3,985,955
Net difference	<u><u>\$ 3,985,955</u></u>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

**NOTE 10—EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL
FUND OPERATING STATEMENT AND THE STATEMENT OF ACTIVITIES**

The net change in fund balance for the governmental funds differs from the "change in net assets" 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 assets decreased by the amount of depreciation expense on equipment items during the year and increased (decreased) by the amount of net gain (loss) on disposal of capital assets.

Differences	Balance June 30, 2009
Capital Outlay	\$ (25,191)
Add: Bad Debt	1,700
Add: Depreciation Expense	95,780
Net difference	\$ 72,289

**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 basic financial statements of the Kensington Police Protection and Community Services District (District), as of and for the fiscal year ended June 30, 2009, and have issued my report thereon dated July 27, 2010. 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

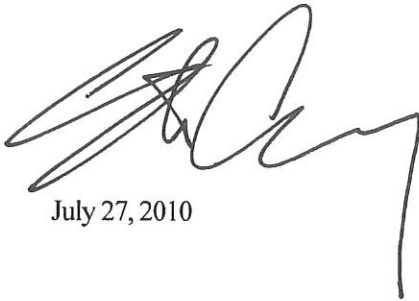
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in schedule of finding and questioned cost as 2009-1.

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*.

KPPCSD's response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit KPPCSD's responses and, accordingly, I express no opinion on the responses.

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.

A handwritten signature in black ink, appearing to be 'A. J. [unclear]', written in a cursive style.

July 27, 2010

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2009**

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

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2009**

<u>Findings</u>	<u>Present Status</u>	<u>Explanation if not fully implemented</u>
2009-1	N/A	N/A

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

2009-1

Over-time wages paid was not properly supported.

Criteria

Over-time wages expenditure is \$39,006 in fiscal year 2009. Kensington Police Protection and Community Services District required employees to report over-time hours on their timesheets. The supervisors are responsible for approving over-time claims. Approved timesheets are given to the payroll department to process paychecks.

Condition

L&C have identified a total of 4 incidents, out of a total of 30 samples tested. The 4 sample support timesheets did not tie and agree to the payroll register. In all 4 incidents, the officers were paid more over-time than what was reported.

Effect

There was a control weakness that appears to be no preliminary review process of payroll register to the timesheets. As a result, over-time wages paid was inaccurate and KPPCSD overpaid its employees for over-time wages.

Recommendation

L&C recommended that KPPCSD should assign another employee to check the accuracy of the preliminary payroll register against approved timesheets before paychecks are finalized for payment.

Questioned Costs

Not able to determine as L&C did not test the whole population of the over-time wages records.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED JUNE 30, 2009**

Management Response and Corrective Action Plan

Management completely agrees with the findings of the 2008/2009 audit and has already taken corrective action.

Between April and December of 2009, officer's schedules were changed from a "4/10" schedule to a "3/12" schedule to cover for a personnel/ staffing shortage. This resulted in officers working four built in overtime hours a pay period, which they were not required to fill out a daily overtime slip for.

However, Management also began to track payroll and payable issues by the end of 2009 that were traced back to a personnel issue. Following an internal audit conducted by the District's accountant/CPA, by March of 2010, changes were made in the way payroll was processed. It was during this time that the District's accountant/CPA took over the responsibility to process payroll and continued to audit the payroll and payables process.

With changes in personnel occurring in August 2010, Management has begun the search to identify personnel who would be qualified and have the necessary experience in day to day accounting transactions and payroll processes. The search is being conducted with the assistance of the District's accountant/CPA.

