

**KENSINGTON POLICE PROTECTION AND  
COMMUNITY SERVICES DISTRICT**

Basic Financial Statements and Independent Auditor's Report for the  
Year ended June 30, 2012

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
Basic Financial Statements  
and Required Supplementary Information  
for the Fiscal Year Ended June 30, 2012

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities and each major fund of Kensington Police Protection and Community Services District (KPPCSD), as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise KPPCSD'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 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 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 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 and each major fund of KPPCSD, as of June 30, 2012, and the respective changes in financial position, and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report (continued)

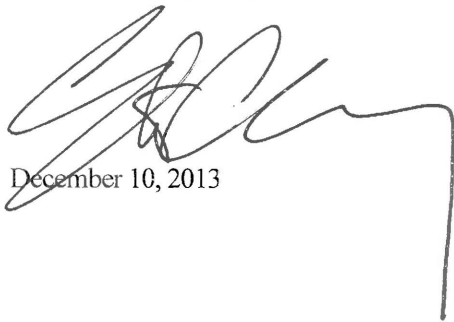
### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 3 to 6 and 12 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.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 10, 2013 on my consideration of KPPCSD's internal control over financial reporting and on my tests or 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KPPCSD's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to be 'J. R. ...', is written over the date. The signature is stylized and somewhat illegible.

December 10, 2013

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012. 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, 2012 and 2011 are \$5,719,149 and \$5,625,248 respectively. This is a 1.67% increase.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations for fiscal years ended June 30, 2012 and 2011 are \$1,764,932 and \$1,715,584 respectively.

**From the Governmental Fund Financial Statements**

- Our General Fund balance increased by \$48,971.
- Property tax revenues (including special and Measure G tax revenue for police services) for fiscal years ended June 30, 2012 and 2011 were \$2,347,230 and \$2,340,621, respectively. This is a 0.28% 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, 2012**

**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 \$5,719,149 as of June 30, 2012 and \$5,625,248 as of June 30, 2011. This number is comprised of two components:

	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Investment in capital assets, net of debt	\$ 3,954,217	\$ 3,909,664
Unrestricted assets	1,764,932	1,715,584
<b>Total net assets</b>	<b>\$ 5,719,149</b>	<b>\$ 5,625,248</b>

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, 2012**

**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, 2012 was established in 1997 after receiving voter approval in 1994.

The District's third largest source of revenue comes from Measure G Supplemental Tax Revenue. It is also restricted to police activities. The current rate is set by the Board of Directors, not to exceed \$200 plus accumulated CPI increases per parcel.

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, 2012, 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. In FY 2011/2012, 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 is for services and supplies. 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—\$77,218

**COMMENTS ON BUDGET COMPARISONS**

Actual revenues and actual expenditures versus budget amounts equal a positive variance of \$106,837.

Actual revenues exceeded budgeted revenues by \$92,048. The largest difference is KPPCSD received \$100,000 more than the budgeted in grant revenue.

The actual expenditures were less than the final budgeted expenditures by \$45,575.

The police salary and benefits were under budget \$126,580. District was short one police officer for nine months.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**COMMENTS ON BUDGET COMPARISONS (continued)**

The other police other expenses were under budget \$70,694. The largest difference was \$51,000 in communications. City of Richmond determined that the 800 Mhz system was overfunded, saving \$41,000. \$10,000 was not spent due to a delay in the EBRICS system coming online.

The recreation expenses were over budget \$16,796. \$18,000 was paid to repair dry rot in the Community Center.

The district expenses were over budget \$148,081. Various legal costs were over budget by \$75,000. Unbudgeted consulting totaled \$70,000.

**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. 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, \$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, \$315 per year for commercial and institutional, \$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, \$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. These funds 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, 2012**

**HISTORY AND ECONOMIC FACTORS (continued)**

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.

**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, 2012**

	<u>General Fund</u>	<u>Capital Project</u>	<u>Total</u>	<u>Adjustment Note 9</u>	<u>Statement of Net Assets</u>
<b>Assets</b>					
Cash and investments	\$ 1,736,703	\$ 126,946	\$ 1,863,649	\$ -	\$ 1,863,649
Receivables					
Supplemental taxes and Community Services District	10,223	-	10,223	-	10,223
Interest receivable	902	90	992	-	992
Reimbursements and other	45,455	-	45,455	-	45,455
Prepaid	81,245	-	81,245	-	81,245
Capital assets					
Land	-	-	-	2,808,347	2,808,347
Vehicle and equipment	-	-	-	489,383	489,383
Building and improvement	-	-	-	1,616,820	1,616,820
Furniture & fixtures	-	-	-	29,914	29,914
Accumulated depreciation	-	-	-	(990,247)	(990,247)
Total assets	<u>\$ 1,874,528</u>	<u>\$ 127,036</u>	<u>\$ 2,001,564</u>	<u>\$ 3,954,217</u>	<u>\$ 5,955,781</u>
<b>Liabilities</b>					
Accounts payable	\$ 27,898	\$ -	\$ 27,898	\$ -	\$ 27,898
GASB 45 ACCL	115,140	-	115,140	-	115,140
Compensated absence	77,218	-	77,218	-	77,218
Accrued payable	15,005	-	15,005	-	15,005
TEMP	1,371	-	1,371	-	1,371
Total liabilities	<u>236,632</u>	<u>-</u>	<u>236,632</u>	<u>-</u>	<u>236,632</u>
<b>Fund balances/net assets</b>					
Fund balances					
Nonspendable	115,140	-	115,140	-	115,140
Restricted	77,218	-	77,218	(77,218)	-
Committed	-	-	-	-	-
Assigned	300,000	-	300,000	-	300,000
Unassigned	1,145,538	127,036	1,272,574	(1,687,714)	(415,140)
Total fund balances	<u>1,637,896</u>	<u>127,036</u>	<u>1,764,932</u>	<u>(1,764,932)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,874,528</u>	<u>\$ 127,036</u>	<u>\$ 2,001,564</u>		
<b>Net assets</b>					
Capital assets				3,954,217	3,954,217
Unrestricted				-	1,764,932
Total net assets				<u>\$ 3,954,217</u>	<u>\$ 5,719,149</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, 2012**

	General	Capital Project	Total	Adjustment Note 10	Statement of Activities
<b>EXPENDITURES/EXPENSES</b>					
Current expenditures/expenses					
Police Salary and Benefits					
Salary-Officers	\$ 809,484	\$ -	\$ 809,484	\$ -	\$ 809,484
Compensated Absence	9,901	-	9,901	-	9,901
Overtime	59,852	-	59,852	-	59,852
Salary-Non sworn	48,409	-	48,409	-	48,409
Uniform Allowance	7,351	-	7,351	-	7,351
Safety Equipment	2,080	-	2,080	-	2,080
Medical Insurance	386,340	-	386,340	-	386,340
Disability & Life insurance	11,772	-	11,772	-	11,772
Social Security/Medicare	14,515	-	14,515	-	14,515
PERS District	280,065	-	280,065	-	280,065
PERS Officers	74,402	-	74,402	-	74,402
Workers Compensation	66,387	-	66,387	-	66,387
Police Expenses					
Expendable Police Supplies	2,570	-	2,570	-	2,570
Range/Ammunition Supplies	1,911	-	1,911	-	1,911
Crossing Guard	10,490	-	10,490	-	10,490
Vehicle Operation	43,354	-	43,354	-	43,354
Communications (RPD)	103,085	-	103,085	-	103,085
Radio Maint.	14,037	-	14,037	-	14,037
Prisoner/Case Exp/Booking	3,801	-	3,801	-	3,801
Training	12,174	-	12,174	-	12,174
Recruiting	2,121	-	2,121	-	2,121
Reserve Officers	1,287	-	1,287	-	1,287
Misc, Dues, Meals and Travel	2,044	-	2,044	-	2,044
Utilities	7,358	-	7,358	-	7,358
Building Repair	1,542	-	1,542	-	1,542
Office Supplies	8,157	-	8,157	-	8,157
Telephone	7,176	-	7,176	-	7,176
Housekeeping	2,974	-	2,974	-	2,974
Publications	2,458	-	2,458	-	2,458
West-Net/Cai	12,893	-	12,893	-	12,893
Community Policing	3,308	-	3,308	-	3,308
Measure G Administration	3,502	-	3,502	-	3,502
Recreation Salary and Benefits					
Park and Recreation Administration	6,220	-	6,220	-	6,220
Custodian	21,300	-	21,300	-	21,300
Social Security/Medicare	476	-	476	-	476
Recreation Expenses					
Community Center Utilities	4,288	-	4,288	-	4,288
Janitorial Supplies	986	-	986	-	986
Community Center Repairs	28,156	-	28,156	-	28,156
Annex Utilities	1,281	-	1,281	-	1,281
Park O&M	48,880	-	48,880	-	48,880
Misc Park/Rec Expense	5,531	-	5,531	-	5,531
District Expenses					
Computer Maintenance	27,393	-	27,393	-	27,393
Legal	91,985	-	91,985	-	91,985
Consulting	77,799	-	77,799	-	77,799
Accounting	24,622	-	24,622	-	24,622
Equipment Rental	5,271	-	5,271	-	5,271
Insurance	28,085	-	28,085	-	28,085
Police Building Lease	29,705	-	29,705	-	29,705
County Expense	20,413	-	20,413	-	20,413
Waste/Recycle	43,614	-	43,614	-	43,614
Miscellaneous	7,009	-	7,009	-	7,009
ANNEX	-	-	-	18,506	18,506
Depreciation	-	-	-	79,550	79,550
<b>Total current expenditures/expenses</b>	<b>2,489,814</b>	<b>-</b>	<b>2,489,814</b>	<b>98,056</b>	<b>2,587,870</b>
Capital outlay					
Buildings and improvements	142,609	-	142,609	(142,609)	-
<b>Total capital outlay</b>	<b>142,609</b>	<b>-</b>	<b>142,609</b>	<b>(142,609)</b>	<b>-</b>
<b>Total expenditures/expenses</b>	<b>2,632,423</b>	<b>-</b>	<b>2,632,423</b>	<b>(44,553)</b>	<b>2,587,870</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, 2012  
(continued)

	General	Capital Project	Total	Adjustment Note 10	Statement of Activities
<b>GENERAL REVENUES:</b>					
Property Taxes	1,261,672	-	1,261,672	-	1,261,672
Special Assessments	679,890	-	679,890	-	679,890
Measure G Supplemental Tax Revenue	405,668	-	405,668	-	405,668
Grants-COPS & Other	200,000	-	200,000	-	200,000
Charges for Services	1,590	-	1,590	-	1,590
POST Reimbursement	8,654	-	8,654	-	8,654
Rents and Fees	25,875	-	25,875	-	25,875
Investment Income	3,725	377	4,102	-	4,102
Franchise Fees	20,270	-	20,270	-	20,270
Other Tax Income	45,007	-	45,007	-	45,007
Supplemental Workers' Comp Reimb.	2,037	-	2,037	-	2,037
Other Income	27,610	-	27,610	-	27,610
<b>Total Revenues</b>	<u>2,681,998</u>	<u>377</u>	<u>2,682,375</u>	<u>-</u>	<u>2,682,375</u>
Excess (deficiency) of Revenues Over Other (under) Expenditures	<u>49,575</u>	<u>377</u>	<u>49,952</u>	<u>44,553</u>	<u>94,505</u>
Other Financing Sources (Uses)					
Transfers In	(9,637)	-	(9,637)	-	(9,637)
Transfers Out	9,033	-	9,033	-	9,033
<b>Total Other Financing Sources (uses)</b>	<u>(604)</u>	<u>-</u>	<u>(604)</u>	<u>-</u>	<u>(604)</u>
<b>Change in Net Assets</b>	<u>48,971</u>	<u>377</u>	<u>49,348</u>	<u>44,553</u>	<u>93,901</u>
<b>Fund Balances/Net Assets, beginning of year</b>	<u>1,588,925</u>	<u>126,659</u>	<u>1,715,584</u>	<u>3,909,664</u>	<u>5,625,248</u>
<b>Fund balances/net assets, end of year</b>	<u>\$ 1,637,896</u>	<u>\$ 127,036</u>	<u>\$ 1,764,932</u>	<u>\$ 3,954,217</u>	<u>\$ 5,719,149</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, 2012**

	<b>Emergency Preparedness Fund</b>	<b>Kensington Park Reassessment District 2004-1 Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash and investments	\$ 531	\$ 268,911	\$ 269,442
Interest receivable	-	83	83
Special assessments receivable	-	1,085,541	1,085,541
<b>Total assets</b>	<b>\$ 531</b>	<b>\$ 1,354,535</b>	<b>\$ 1,355,066</b>
<b>Liabilities</b>			
Accounts payable	\$ 265	\$ 1	\$ 266
2004 Limited Obligation Improvement Bonds	-	1,202,050	1,202,050
Bond interest payable	-	17,029	17,029
<b>Total liabilities</b>	<b>\$ 265</b>	<b>\$ 1,219,080</b>	<b>\$ 1,219,345</b>
<b>Net Assets</b>			
Reserved for Emergency Preparedness Council	\$ 266	\$ -	\$ 266
Reserved for Reassessment District 2004-1	-	135,455	135,455
<b>Total net assets</b>	<b>\$ 266</b>	<b>\$ 135,455</b>	<b>\$ 135,721</b>

*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, 2012**

	<b>Emergency Preparedness Fund</b>	<b>Kensington Park Reassessment District 2004-1 Fund</b>	<b>Total</b>
<b>ADDITIONS:</b>			
Special assessments	\$ -	\$ 176,400	\$ 176,400
Interest income	-	350	350
<b>Total additions</b>	<b>-</b>	<b>176,750</b>	<b>176,750</b>
<b>DEDUCTIONS:</b>			
Bond administration charges	-	10,799	10,799
Bond expenses	-	51,876	51,876
Bond principal	-	109,520	109,520
Contract services	73	-	73
<b>Total deductions</b>	<b>73</b>	<b>172,195</b>	<b>172,268</b>
Net increase (decrease) in fiduciary net assets	(73)	4,555	4,482
Transfer in	-	(9,033)	(9,033)
Transfer out	-	9,637	9,637
<b>Net assets, beginning of year</b>	<b>339</b>	<b>130,296</b>	<b>130,635</b>
<b>Net assets, end of year</b>	<b>\$ 266</b>	<b>\$ 135,455</b>	<b>\$ 135,721</b>

*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, 2012**

	<u>General Fund Budget</u>	<u>General Fund Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues:</b>			
Property Taxes	\$ 1,250,000	\$ 1,261,672	\$ 11,672
Special Assessments	680,000	679,890	(110)
Measure G Supplement Tax Rev.	453,200	405,668	(47,532)
Grant Revenue	100,000	200,000	100,000
Investment Income	3,700	3,725	25
Rents and Fees	24,000	25,875	1,875
Charges for Services	2,000	1,590	(410)
Post Reimbursement	-	8,654	8,654
Franchise Fees	21,000	20,270	(730)
Other Tax Income	43,000	45,007	2,007
Supplemental Workers' Comp Reimb.	-	2,037	2,037
Other Income	12,550	27,610	15,060
Donations	500	-	(500)
	<u>2,589,950</u>	<u>2,681,998</u>	<u>92,048</u>
<b>Total Revenues</b>			
<b>Expenses:</b>			
Police Salary and Benefits	1,897,138	1,770,558	126,580
Police Other Expenses	316,936	246,242	70,694
Recreation Salary and Benefits	32,997	27,996	5,001
Recreation Expenses	72,326	89,122	(16,796)
District Expenses	207,815	355,896	(148,081)
Capital Outlay	120,000	142,609	(22,609)
	<u>2,647,212</u>	<u>2,632,423</u>	<u>14,789</u>
<b>Total Expenditures</b>			
Excess of Revenues over (under) Expenditures	<u>\$ (57,262)</u>	<u>\$ 49,575</u>	<u>\$ 106,837</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, 2012**

**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, 2012**

**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, 2012.

***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 2012, 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 2012 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, 2012**

**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. All investment is invested through County of Contra Costa.

***Compensated absences***

District employees are entitled to certain compensated absences based on their length of employment. Payable for compensated absences is \$77,218 at June 30, 2012.

***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, 2012**

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

*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.

*Subsequent events*

At the time of the audit, KPPCSD has evaluated all subsequent events through December 10, 2013, the date the financial statements were available to be issued, and determined that there is no material impact from the subsequent events.

**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 an investment account 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, 2012**

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

A summary of the District’s cash and investments at June 30, 2012 is as follows:

	<b>Carrying Value</b>	<b>Market Value</b>
<b><u>Governmental Funds (District Fund)</u></b>		
<u>Category 1:</u>		
Cash in Checking Accounts	\$ 2,823	\$ 2,823
Petty Cash	100	100
 <u>Uncategorized:</u>		
County Treasury	1,860,726	1,860,726
<b>Total Governmental Fund (District Fund)</b>	<b>1,863,649</b>	<b>1,863,649</b>
 <b><u>Fiduciary Funds</u></b>		
<u>Category 1:</u>		
Cash in Checking Accounts	531	531
 <u>Uncategorized:</u>		
County Treasury	268,911	268,911
<b>Total Fiduciary Fund</b>	<b>269,442</b>	<b>269,442</b>
<b>Total Governmental &amp; Fiduciary Fund</b>	<b>\$ 2,133,091</b>	<b>\$ 2,133,091</b>

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

General Fund	\$ 1,736,703
Capital Project Fund	126,946
	\$ 1,863,649
 Emergency Preparedness Fund	 \$ 531
 2004-1 Park Reassessment Bond Fund	 \$ 268,911

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, 2012**

**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 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, 2012**

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

A summary of changes in general fixed assets follows:

	<u>Balance 6/30/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/12</u>
Non-Depreciable Assets				
Land	\$ 2,808,347	\$ -	\$ -	\$ 2,808,347
Depreciable Assets				
Building & Improvements	1,492,717	162,491	38,388	1,616,820
Vehicles & Equipment	489,383	-	-	489,383
Furniture & Fixtures	29,914	-	-	29,914
<b>Total Depreciable Asset:</b>	<u>4,820,361</u>	<u>162,491</u>	<u>38,388</u>	<u>4,944,464</u>
Accumulated Depreciation				
Building & Improvements	417,102	41,650	-	458,752
Vehicles & Equipment	465,173	37,596	-	502,769
Furniture/Fixtures/Improvements	28,422	304	-	28,726
<b>Total Accumulated Depreciation:</b>	<u>910,697</u>	<u>79,550</u>	<u>-</u>	<u>990,247</u>
<b>Capital Assets Net of Depreciation</b>	<u>\$ 3,909,664</u>	<u>\$ 82,941</u>	<u>\$ 38,388</u>	<u>\$ 3,954,217</u>

The current depreciation expense of \$79,550 was charged to Statement of Activities as depreciation expense adjustment.

**NOTE 4— SPECIAL ASSESSMENT DEBT**

***Kensington Park Reassessment District 2004-1 Refunding Bonds***

	<u>June 30, 2011</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2012</u>
2004 Limited Improvement Bonds Obligation	\$ 1,311,570	\$ -	\$ 109,520	\$ 1,202,050
	<u>\$ 1,311,570</u>	<u>\$ -</u>	<u>\$ 109,520</u>	<u>\$ 1,202,050</u>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**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.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

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

As of June 30, 2012, future debt service payments were as follows:

<u>Fiscal year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 112,176	\$ 48,759	\$ 160,935
2014	120,367	43,818	164,185
2015	123,164	38,643	161,807
2016	125,861	33,350	159,211
2017	133,353	27,843	161,196
Thereafter	587,129	50,706	637,835
	<u>\$ 1,202,050</u>	<u>\$ 243,119</u>	<u>\$ 1,445,169</u>

Current Year Portion of Principal pay down: \$109,520

Current Year Portion of Interest expense: \$51,876

**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 38.3% was required for fiscal 2012. 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 2012/2013, the required employer contribution rate is 33.72%.



**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

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

*Annual pension cost*

For the fiscal year ended June 30, 2012, the total contributions amounted to \$354,467. Of this amount, \$280,065 was contributed by the District on behalf of the plan members. The actuarial assumptions included: a) an 7.50% investment rate of return (net of administrative expenditures); and b) projected salary increases of 3.30% to 14.20%. Both a) and b) include an inflation component of 3% and anticipated payroll growth of 3%. 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:

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>% of APC Contributed</b>	<b>Net Pension Obligation (Asset)</b>
2010	\$ 243,261	100%	\$ -
2011	244,706	100%	-
2012	386,340	100%	-

**NOTE 6— LEASE COMMITMENT**

**Building/Office**

In December 2009, the District entered into agreement as a lessee to occupy office space from Kensington Fire Protection District for a five-year period through June 30, 2014. Rent increase is run accordance to consumer index change from minimum of 3% to maximum of 6%. Rent expense for fiscal years ended June 30, 2012 and 2011 were \$29,705 and \$28,840, respectively.

The minimum future lease commitments (with 3% increased each year) are as follows:

<b>Year Ended</b>	<b>Amount</b>
June 30, 2013	\$ 30,596
June 30, 2014	31,513
<b>Total</b>	<b>\$ 62,109</b>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 6— LEASE COMMITMENT (continued)**

**Equipment**

The District has entered into an operating lease for radio equipment, commencing March 1, 2012 and expire March 1, 2015 with an annual interest rate of 4.63%. The lease is an operating lease contains the option to purchase and will require the District to pay all executory costs such as taxes, maintenance, and insurance. Rental expenses for the lease consisted of \$19,469 for the year ended June 30, 2012.

The minimum future lease payments are as follow:

Year Ending June 30:

2013	\$ 19,469
2014	19,469
2015	<u>19,469</u>
	<u><u>\$ 58,407</u></u>

**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, 2012 are as follows:

<b><u>Fund balances</u></b>	<b><u>General</u></b>	<b><u>Capital Projects</u></b>	<b><u>Total</u></b>
Reserved			
Compensated Absences	\$ 77,218	\$ -	\$ 77,218
<b>Total Reserved</b>	<u>77,218</u>	<u>-</u>	<u>77,218</u>
Unreserved and Undesignated	1,560,678	127,036	1,687,714
<b>Total Unreserved and Undesignated</b>	<u>1,560,678</u>	<u>127,036</u>	<u>1,687,714</u>
 <b>Total Fund Balance</b>	 <u><u>\$ 1,637,896</u></u>	 <u><u>\$ 127,036</u></u>	 <u><u>\$ 1,764,932</u></u>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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 \$28,085 for fiscal 2012 coverage. Members are subject to dividends and/or assessments in accordance with the provisions of the Joint Powers agreement. At June 30, 2012, SDRMA could not confirm the status of any incurred but not reported (“IBNR”) 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 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.

	<b>Balance</b>
<b>Differences</b>	<b>June 30, 2012</b>
Cost of capital assets	\$ 4,944,464
Less: Accumulated depreciation	990,247
Net capital assets	3,954,217
<b>Net difference</b>	<b>\$ 3,954,217</b>

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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.

<b>Differences</b>	<b>Balance June 30, 2012</b>
Capital Outlay	\$ (142,609)
Add: Depreciation Expense	79,550
Add: ANNEX	18,506
	\$ (44,553)
<b>Net difference</b>	<b>\$ (44,553)</b>

**NOTE 11— POSTRETIREMENT 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 postretirement health benefits (medical, dental, and vision) to the 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. This is the second year the District implements this GASB requirement.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 11— POSTRETIREMENT HEALTH BENEFITS (continue)**

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 projected the plan population to estimate the cost of future benefits. The actuarial accrued total OPEB liability comes to \$2,359,424 on the valuation date of July 1, 2008 (revised May 2010).

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

Valuation date	July 1, 2008 (revised May 2010)
Actuarial cost method	Entry Age Normal Cost Method
Discount rate used in valuation	7.75%
Actuarial assumptions:	Baseline cost of healthcare cost from CalPERS medical, Delta Dental and VSP premium rate

The annual medical premium trend rate assumption beginning:

January 1, 2011	7.9%
January 1, 2012	7.6%

As of June 30, 2012, required trust fund account has not been set up and is pending for board approval.

Schedule of Employer Annual Required Contributions

The schedule of employer contributions is shown below:

<b>Fiscal year ended June 30</b>	<b>Annual Required Contribution</b>
2013	\$ 262,556

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 11— POSTRETIREMENT HEALTH BENEFITS (Continued)**

	<b>As of July 1, 2008 (revised May 2010)</b>
Actuarial accrued liability (AAL)	\$ 2,659,132
Actuarial value of assets	377,507
Unfunded actuarial accrued liability	\$ 2,281,625
 Remanding amortization period	 27 years
 Amortization factor based on 7.75% discount rate and 5.5% annual increase in salary	
 Annual level amortization of unfunded AAL	 \$ 150,119
Normal cost (based on Entry Age Normal Cost Method)	102,647
Annual required contribution (ARC)	\$ 252,766
	 <b>2011/2012</b>
Annual required contribution	\$ 252,766
Interest on net OPEB obligation	7,981
Adjustment to annual required contribution	(6,776)
Annual OPEB cost (expense)	253,971
Contribution made	(143,800)
Distribution taken	141,177
Increase (decrease) in net OPEB obligation	251,348
Net OPEB obligation, beginning of year	(136,208)
Net OPEB obligation, end of year	\$ 115,140

As of June 30, 2012, accrued post-employment benefit for 2012 is \$115,140.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 12 – COMPENSATED ABSENCES**

Amounts due to employees for compensated absences as of June 30, 2012 were as follows:

Vacation	\$	77,218
Total compensated absences	\$	77,218

**NOTE 13 – RECENT GOVERNMENTAL ACCOUNTING STANDARDS**

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2012, fund balance for government funds are made up of the followings:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable forms, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a formal action of the District’s highest level of decision-making authority, the District’s Board. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).
- *Assigned Fund Balance* – comprises amounts intended to be used by the District for specific purposes that are neither restricted nor committed. *Intent* is expressed by (1) the District’s Board or (b) a body (for example: a budget or finance committee) or official to which the District’s Board has delegated the authority to assign amounts to be used for specific purposes.
- *Unassigned Fund Balance* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 13 – RECENT GOVERNMENTAL ACCOUNTING STANDARDS (continued)**

Fund balances for all the major and non-major governmental funds as of June 30, 2012, were distributed as follows:

	<u>General Fund</u>	<u>Assets Fiduciary Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
<b>Nonspendable:</b>				
GASB 45 Accrual	\$ 115,140	\$ -	\$ -	\$ 115,140
Subtotal	<u>115,140</u>	<u>-</u>	<u>-</u>	<u>115,140</u>
<b>Restricted for:</b>				
General government	-	-	-	-
Capital projects	-	-	-	-
Compensated absence	77,218	-	-	77,218
Subtotal	<u>77,218</u>	<u>-</u>	<u>-</u>	<u>77,218</u>
<b>Committed to:</b>				
Capital projects	-	135,455	-	135,455
Subtotal	<u>-</u>	<u>135,455</u>	<u>-</u>	<u>135,455</u>
<b>Assigned to:</b>				
Park building replacement	300,000	-	-	300,000
Subtotal	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
<b>Unassigned</b>	<u>1,145,538</u>	<u>-</u>	<u>127,036</u>	<u>1,272,574</u>
<b>Total</b>	<u>\$ 1,637,896</u>	<u>\$ 135,455</u>	<u>\$ 127,036</u>	<u>\$ 1,900,387</u>

The Board's financial planning aims to help reduce the negative impact on the District in times of economic uncertainty and potential losses of funding from federal or state governmental agencies. District funds are *restricted*, *committed* and *assigned* as part of a multi-year financial plan to balance the budget and avoid operating deficits.



**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, 2012, and have issued my report thereon dated December 10, 2013. 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 2012-1

***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, consisting of several loops and a long horizontal stroke extending to the right.

December 10, 2013

**KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2012**

<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, 2012**

**2012-1**

Over-time wages paid were not properly supported.

**Criteria**

Total over-time wages expenditure is \$59,852 during fiscal year 2012. 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 person to process paychecks.

**Condition**

L&C has identified a total of 1 incident out of 32 samples of regular and over-time tested. The 1 sample support timesheet did not tie and agree to the payroll register. In that incident, one officer was paid more over-time than what was reported on his time sheet. It was discovered that the over-time hours reported on the payroll register were inadvertently switched with another officer's over-time hours in the same pay period. The other officer was underpaid for the over-time hours

Subsequently, L&C selected additional overtime samples to test and they seemed to be fine without any error.

**Effect**

There was a control weakness that appears to be an inadequate final review of payroll register to the timesheets. As a result, the net effect of the two officers' inaccurate over-time hours reported is an overpayment of \$198.

**Recommendation**

L&C recommended that KPPCSD should assign employee or management personnel consistently 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, 2012**

**Management Response and Corrective Action Plan**

*We concur with the finding and it appears to be an isolated incident, and current staffing is different than at time of this mistake, but KPPCSD management will take steps to insure that this suggested review process is included in the newly developed Payroll Instruction Guide (by Lynn Wolter).*