

**KENSINGTON FIRE  
PROTECTION DISTRICT**

**Financial Statements and Independent Auditor's Report for the  
Year ended June 30, 2011**

**KENSINGTON FIRE PROTECTION DISTRICT**  
For the Fiscal Year Ended June 30, 2011

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**KENSINGTON FIRE PROTECTION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2011**

(Required Supplementary Information)

The following discussion and analysis provides an overview of the Kensington Fire Protection District's (District) financial activities for the year ended June 30, 2011. Please read it in conjunction with the District's basic financial statements, which follow this section.

**Financial Highlights**

- At the close of the year, June 30, 2011, assets of the District exceeded its liabilities by \$6.35 million (net assets). Of this amount, \$3.05 million (unrestricted net assets) may be used to meet the District's ongoing obligations to the citizens that the District serves.
- The District's total net assets increased by \$573,203.
- At the close of the year, June 30, 2011, the District's general fund reported an ending fund balance of \$4,192,083, an increase of \$510,481 when compared with the prior year.
- At the close of the year, June 30, 2011, the District's special revenue fund reported an ending fund balance of \$9,992, an increase of \$4,240 when compared with the prior year.
- At the close of the year, June 30, 2011, the District's capital project fund reported an ending fund balance of \$895,621, an increase of \$93,370 when compared with the prior year.
- At the end of the current year, June 30, 2011, unrestricted fund balance for the governmental funds was \$3,052,236 or 119% of total governmental funds' expenditures. This is the fourth year the District implements GASB 45. This requirement was created to help all districts realize how negotiated retiree benefit commitments affected current and future budgets. This requirement also help the District accurately show the cost of those commitments in the years when employees work for the District (if any) and the costs are incurred.

**Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The annual financial report for the District includes this management's discussion and analysis (MD&A), the basic financial statements and notes to basic financial statements.

The basic financial statements of the District are presented showing two different views of the District in one statement. The government-wide financial statements view shows both long-term and short-term information on the District's overall financial status. The fund financial statements view focuses on the District's operations with a short-term focus.

The government-wide statements are the statement of net assets and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements provide both long-term and short-term information about the District's overall financial status. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of whether cash is received or paid. The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets is an indicator, of whether its financial health is improving or deteriorating, respectively.

**KENSINGTON FIRE PROTECTION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011**

***Overview of the Basic Financial Statements (continued)***

The fund financial statements are the balance sheet and statement of revenues, expenditures and changes in fund balance and are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Fund financial statements keep track of specific sources of funding and spending for particular purposes. The District has three funds: general fund, special revenue fund, and capital project fund. They are all components of the governmental funds. The fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided in the footnotes that explains the relationship (or differences) between them.

***Government-wide financial statement analysis***

This year is the seventh year the District applied Governmental Accounting Standards Board (GASB) Statement No. 34. This year is the fourth year the District adopts GASB 45.

A comparative analysis of government-wide data is as follows:

Net assets serve over time as a useful indicator of a government's financial position. For the District, assets exceeded liabilities in the years ended June 30, 2011 and 2010 by \$6,359,497 and \$5,786,294, respectively. The largest portion of the District's net assets, 48%, reflects its investment in unrestricted net assets. The next largest portion of the District's net assets, 32.16%, reflects its investment in restricted net assets. The final component of the District's net assets represents its investment in capital assets (e.g., land, buildings and equipment), which makes up the remaining 19.84% of the District's net assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The following table summarizes the net assets of the District as of:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>General revenues</b>		
Property taxes	\$ 2,784,872	\$ 2,725,229
Other revenues	351,757	111,330
<b>Total general revenues</b>	<u>3,136,629</u>	<u>2,836,559</u>
<b>Total program expenses – public safety - fire protection operation</b>	<u>(2,563,426)</u>	<u>(2,720,567)</u>
Change in net assets	573,203	115,992
Net assets, beginning of year	<u>5,786,294</u>	<u>5,670,302</u>
Net assets, end of year	<u>\$ 6,359,497</u>	<u>\$ 5,786,294</u>

**KENSINGTON FIRE PROTECTION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011**

*Fund financial statement analysis*

**General fund** — The general fund's revenue is derived from County of Contra Costa property taxes, which are used to run daily operations of the District.

Property taxes increased by \$59,643 (about 2.19%) in the current year.

Program expenses decreased by \$157,141 (about 5.78%) in the current year.

**Special revenue fund** — The special revenue fund receives the special assessment tax voted in by the Kensington taxpayers in 1980 to be used for fire protection and prevention operations as determined by the District. The revenue received remains consistent with prior years.

**Capital project fund** — The capital project fund receives no tax revenue of its own; it is funded by the general fund on an as-needed basis. The District's Board of Directors votes annually on an amount to transfer and invest from the general fund to the capital project fund for long-term expected replacements.

*General Fund Budgetary Highlights*

There was no budget revision adopted by the Board of Directors after the original budget was adopted at the September 2010 meeting.

*Capital Assets*

As shown in the table below, the District's investment in capital assets (net of accumulated depreciation) as of June 30, 2011 and 2010 was \$1,261,801 and \$1,296,689, respectively.

*Capital Assets (Net of accumulated depreciation)*

	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
Land	\$ 5,800	\$ 5,800
Building and improvements	850,242	834,902
Equipment and furniture	124,393	128,252
Rolling stock	281,366	327,735
<b>Total</b>	<b>\$ 1,261,801</b>	<b>\$ 1,296,689</b>

**KENSINGTON FIRE PROTECTION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011**

***Retiree Healthcare Benefits***

In June 2007, the District implemented Governmental Accounting Standards Board Statement No. 45 (GASB 45). This statement requires governmental entities to account for and report their costs and obligations for Other Postemployment Benefits (OPEB). OPEB are part of an exchange of salaries and benefits for employee services rendered, such as agreements to provide health care benefits to employee upon retirement. Prior to GASB 45, the District financed the retiree health care costs on a "pay-as-you-go" basis, and did not report the financial effects of OPEB until the promised benefits are paid.

Based on the latest valuation for the District's OPEB plan (July 1, 2010), the District's unfunded actuarial accrued liability was \$328,521 as of June 30, 2011; and its annual required contribution (ARC) was \$34,448 for the fiscal year ended June 30, 2011. The ARC is calculated in accordance with certain parameters, and includes (a) the normal cost, the actuarial present value of benefits attributed to prior services; and (b) a component for amortization of the total unfunded actuarial accrued liabilities (or funding excess) of the plan over a period not to exceed twenty years.

In October 2008, the Board pre-funded the OPEB liability in an initial amount of \$300,000. In March 2009, an additional contribution of \$265,000 was made to the PERS Trust. In 2010, an additional contribution of \$535,799 was made to the PERS Trust. The impact of the pre-funding will reduce the District's future annual required contribution.

***Economic Factors and Next Year's Budgets and Rates***

The primary factors affecting expenditures in the District's fiscal year 2011-12 budget are the City of El Cerrito service contract fee and the expected renovation costs to the Public Safety Building.

**Request for Information**

Questions concerning any of the information provided, in this report or requests for additional financial information should be addressed to the Kensington Fire Protection District, 217 Arlington Avenue, Kensington, California 94707.

## **Independent Auditor's Report**

Board of Directors  
Kensington Fire Protection District  
Kensington, California

I have audited the accompanying financial statements of the governmental activities and each major fund of the Kensington Fire Protection District (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express opinions on these financial statements based on my audit.

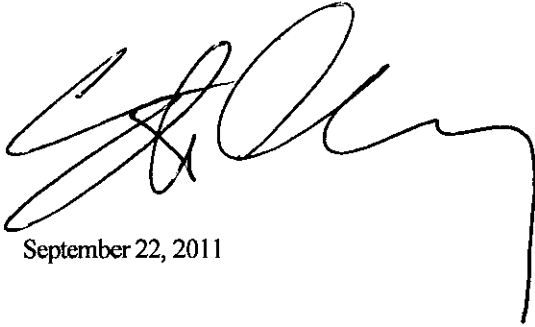
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and 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, 2011, and the respective 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*; GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* and GASB Statement No. 45, *Accounting and Financial Reporting by Employer for Post employment Benefit Other Than Pension*; and GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 22, 2011, 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.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not required parts 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, consisting of several loops and a long horizontal stroke at the end.

September 22, 2011



**Basic Financial Statements**

**KENSINGTON FIRE PROTECTION DISTRICT**  
**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Special Revenue Fund	Capital Project Fund	Total	GAAP Adjustment (Note 3)	Statement of Net Assets
<b>ASSET</b>						
Cash and investments	\$ 2,988,535	\$ 9,992	\$ 894,567	\$ 3,893,094	\$ -	\$ 3,893,094
Receivables:						
Supplemental taxes	22,080	-	-	22,080	-	22,080
Accounts receivable- KPPCSD	689	-	-	689	-	689
Interest receivables	2,312	-	1,058	3,370	-	3,370
Prepaid Expenses	10,840	-	-	10,840	-	10,840
Reimbursements and other	14,857	-	-	14,857	-	14,857
Net OPEB assets	1,155,985	-	-	1,155,985	-	1,155,985
Prop 1A Loan-State of California	218,628	-	-	218,628	-	218,628
Capital assets:						
Land	-	-	-	-	5,800	5,800
Buildings and improvements, net	-	-	-	-	850,242	850,242
Equipment and furniture, net	-	-	-	-	124,393	124,393
Rolling stock, net	-	-	-	-	281,366	281,366
<b>Total assets</b>	<u>\$ 4,413,926</u>	<u>\$ 9,992</u>	<u>\$ 895,625</u>	<u>\$ 5,319,543</u>	<u>\$ 1,261,801</u>	<u>\$ 6,581,344</u>
<b>LIABILITIES</b>						
Accounts payable and other accruals	\$ 40,157	\$ -	\$ 4	\$ 40,161	\$ -	\$ 40,161
Wages payable	5,686	-	-	5,686	-	5,686
Surety Bond Liabilities	176,000	-	-	176,000	-	176,000
<b>Total liabilities</b>	<u>221,843</u>	<u>-</u>	<u>4</u>	<u>221,847</u>	<u>-</u>	<u>221,847</u>
<b>FUND BALANCES</b>						
Nonspendable	1,155,985	\$ -	\$ -	\$ 1,155,985	\$ -	\$ -
Restricted	-	-	-	-	-	-
Committed	-	-	889,475	889,475	1,261,801	-
Assigned	2,132,128	-	-	2,132,128	-	-
Unassigned	903,970	9,992	6,146	920,108	-	-
<b>Total fund balances</b>	<u>4,192,083</u>	<u>9,992</u>	<u>895,621</u>	<u>5,097,696</u>	<u>1,261,801</u>	<u>-</u>
<b>Total liabilities and fund balances</b>	<u>\$ 4,413,926</u>	<u>\$ 9,992</u>	<u>\$ 895,625</u>	<u>\$ 5,319,543</u>		
<b>Net assets:</b>						
Invested in capital assets					1,261,801	1,261,801
Restricted					2,045,460	2,045,460
Unrestricted					3,052,236	3,052,236
<b>Total net assets</b>					<u>\$ 6,359,497</u>	<u>\$ 6,359,497</u>

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

**KENSINGTON FIRE PROTECTION DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT**  
**OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Special Revenue Fund	Capital Project Fund	Total	Adjustment (Note 4)	Statement of Activities
<b>EXPENDITURES/EXPENSES</b>						
<b>Current expenditures/expenses:</b>						
Public safety:						
City of El Cerrito service contract	\$ 2,132,128	\$ -	\$ -	\$ 2,132,128	\$ -	\$ 2,132,128
Retiree health insurance	64,995	-	-	64,995	-	64,995
Firefighters' apparel/expenses	18,389	-	-	18,389	-	18,389
Insurance	12,378	-	-	12,378	-	12,378
Office wages and related expenses	91,929	-	-	91,929	-	91,929
County property tax administration/fees	31,074	1,981	36	33,091	-	33,091
Wildland vegetation management	5,985	-	-	5,985	-	5,985
Water system improvement	1,186	-	-	1,186	-	1,186
LAFCO	1,446	-	-	1,446	-	1,446
Professional development	946	-	-	946	-	946
Outside professional service fees	44,555	-	-	44,555	-	44,555
Public education	8,087	-	-	8,087	-	8,087
Office equipment and supplies	3,288	-	-	3,288	-	3,288
Building utilities/services	27,853	-	-	27,853	-	27,853
Memberships	5,241	-	-	5,241	-	5,241
Community service activities	7,289	-	-	7,289	-	7,289
Staff appreciation	1,624	-	-	1,624	-	1,624
Donation	2,000	-	-	2,000	-	2,000
Miscellaneous	374	-	-	374	-	374
(Gain)/Loss from disposition	-	-	-	-	-	-
Depreciation	-	-	-	-	100,642	100,642
<b>Total current expenditures/expenses</b>	<b>2,460,767</b>	<b>1,981</b>	<b>36</b>	<b>2,462,784</b>	<b>100,642</b>	<b>2,563,426</b>
<b>Capital outlay:</b>						
Equipment and furniture	16,545	-	-	16,545	(16,545)	-
Buildings and improvements	49,209	-	-	49,209	(49,209)	-
<b>Total capital outlay</b>	<b>65,754</b>	<b>-</b>	<b>-</b>	<b>65,754</b>	<b>(65,754)</b>	<b>-</b>
<b>Total expenditures/expenses</b>	<b>2,526,521</b>	<b>1,981</b>	<b>36</b>	<b>2,528,538</b>	<b>34,888</b>	<b>2,563,426</b>
<b>GENERAL REVENUES</b>						
Property taxes	2,784,872	-	-	2,784,872	-	2,784,872
Special taxes	-	200,221	-	200,221	-	200,221
Other taxes	32,657	-	-	32,657	-	32,657
Other revenue	32,808	-	-	32,808	-	32,808
Rental income	28,840	-	-	28,840	-	28,840
Salary reimbursement income	44,705	-	-	44,705	-	44,705
Investment income	8,467	-	4,059	12,526	-	12,526
<b>Total revenues</b>	<b>2,932,349</b>	<b>200,221</b>	<b>4,059</b>	<b>3,136,629</b>	<b>-</b>	<b>3,136,629</b>
Excess (deficiency) of revenues over (under) expenditures	405,828	198,240	4,023	608,091	(34,888)	573,203
<b>Other financing sources (uses):</b>						
Transfers in	109,108	-	93,455	202,563	-	202,563
Transfers out	(4,455)	(194,000)	(4,108)	(202,563)	-	(202,563)
<b>Total other financing sources (uses)</b>	<b>104,653</b>	<b>(194,000)</b>	<b>89,347</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>510,481</b>	<b>4,240</b>	<b>93,370</b>	<b>608,091</b>	<b>(34,888)</b>	<b>573,203</b>
<b>Fund balances/net assets, beginning of year</b>	<b>3,681,602</b>	<b>5,752</b>	<b>802,251</b>	<b>4,489,605</b>	<b>1,296,689</b>	<b>5,786,294</b>
<b>Fund balances/net assets, end of year</b>	<b>\$ 4,192,083</b>	<b>\$ 9,992</b>	<b>\$ 895,621</b>	<b>\$ 5,097,696</b>	<b>\$ 1,261,801</b>	<b>\$ 6,359,497</b>

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

**KENSINGTON FIRE PROTECTION DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund			Special Revenue Fund		
	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>						
Property taxes	\$ 2,725,300	\$ 2,784,872	\$ 59,572	\$ -	\$ -	\$ -
Special taxes	-	-	-	200,221	200,221	-
Other taxes	31,900	32,657	757	-	-	-
Other revenue	-	32,808	32,808	-	-	-
Rental income	28,840	28,840	-	-	-	-
Salary reimbursement income	45,025	44,705	(320)	-	-	-
Interest income	7,000	8,467	1,467	-	-	-
<b>Total revenues</b>	<u>2,838,065</u>	<u>2,932,349</u>	<u>94,284</u>	<u>200,221</u>	<u>200,221</u>	<u>-</u>
<b>Current expenditures:</b>						
Public safety:						
City of El Cerrito service contract	2,132,128	2,132,128	-	-	-	-
Retiree health insurance	64,695	64,995	(300)	-	-	-
Firefighters' apparel and expenses	17,910	18,389	(479)	-	-	-
Insurance	12,380	12,378	2	-	-	-
Office wages and related expenses	95,165	91,929	3,236	-	-	-
County property tax administration/fees	30,235	31,074	(839)	2,200	1,981	219
Wildland vegetation management	10,000	5,985	4,015	-	-	-
Water system improvement	20,000	1,186	18,814	-	-	-
Fire Abatement Contract	8,000	-	8,000	-	-	-
LAFCO	1,445	1,446	(1)	-	-	-
Professional development	5,500	946	4,554	-	-	-
Outside professional service fees	56,200	44,555	11,645	-	-	-
Public education	13,000	8,087	4,913	-	-	-
Office equipment and supplies	6,000	3,288	2,712	-	-	-
Building utilities/services	268,340	27,853	240,487	-	-	-
Memberships	5,000	5,241	(241)	-	-	-
Community service activities	14,500	7,289	7,211	-	-	-
Staff appreciation	2,500	1,624	876	-	-	-
Donation	2,000	2,000	-	-	-	-
Miscellaneous	1,000	374	626	-	-	-
Operating contingency	26,700	-	26,700	-	-	-
<b>Total current expenditures</b>	<u>2,792,698</u>	<u>2,460,767</u>	<u>331,931</u>	<u>2,200</u>	<u>1,981</u>	<u>219</u>
<b>Capital outlay:</b>						
Equipment and Furniture	21,580	16,545	5,035	-	-	-
Buildings and Improvements	150,000	49,209	100,791	-	-	-
<b>Total capital outlay</b>	<u>171,580</u>	<u>65,754</u>	<u>105,826</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(126,213)</u>	<u>405,828</u>	<u>532,041</u>	<u>198,021</u>	<u>198,240</u>	<u>(219)</u>
<b>Other financing sources (uses):</b>						
Transfers in	-	109,108	(109,108)	-	-	-
Transfers out	-	(4,455)	4,455	-	(194,000)	194,000
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>104,653</u>	<u>(104,653)</u>	<u>-</u>	<u>(194,000)</u>	<u>194,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (126,213)</u>	<u>510,481</u>	<u>\$ 427,388</u>	<u>\$ 198,021</u>	<u>4,240</u>	<u>\$ 193,781</u>
<b>Fund balances/net assets, beginning of year, as restated</b>		<u>3,681,602</u>			<u>5,752</u>	
<b>Fund balances/net assets, end of year</b>		<u>\$ 4,192,083</u>			<u>\$ 9,992</u>	

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

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 1 – REPORTING ENTITY**

The Kensington Fire Protection District (District) is a special district empowered to take all the necessary steps to provide for fire protection and prevention services including enforcement of California State (State) laws applicable to fire codes. The financial statements of the District include all funds of the District. An elected Board of Directors governs the District, and exercises powers granted by State statutes.

In August 1995, the District entered into a contract with the City of El Cerrito (City) under which the City provides fire suppression and emergency medical services for the District. The contract provides that the District will pay the City an annual fee as defined in the contract (paid on a monthly basis) that expires June 30, 2015. The annual fee that the District paid under this contract for the fiscal years ended June 30, 2011 and 2010 were \$2,132,128 and \$2,120,231, respectively.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Implementation of Governmental Accounting Standards (GASB) Statement*

In February 2009, GASB released a new Statement, *GASB Statement 54 – Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The initial distinction in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of the Statement are effective for financial statements for periods beginning after June 15, 2010. The details for the fund balance classifications prescribed under this Statement are separately discussed in Note 9.

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Measurement focus, basis of accounting and financial statement presentation*

The District prepares its government-wide statements using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District's fund financial statements are prepared using the current financial resources focus and the modified accrual basis of accounting. Revenues are recorded when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 90 days of the end of the current fiscal year. Revenues meeting these availability criteria include special and other taxes. The availability period for property taxes is 60 days. Revenues not considered available are recorded as deferred revenues. Expenditures are generally recorded when the fund liability is incurred, except for compensated absences, such as vacation and sick leave, which are recognized when due. Liabilities expected to be paid after one year is recorded in the government-wide column as a noncurrent liability due more than one year.

*Fund Accounting*

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 by providing a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues and expenditures. The District uses the following funds.

**Governmental Fund Types**

The *General Fund* is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

The *Special Revenue Fund* accounts for the special tax authorized by Section 53978 of the Government Code and approved by the District's electorate on April 8, 1980.

The *Capital Project Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities and rolling stock.

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Budgets and Budgetary Accounting***

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

1. At the June Board of Directors (Board) meeting, the Finance Committee submits to the Board proposed operating and capital improvement draft budgets for the fiscal year commencing the following July 1. The operating and capital improvement budgets include proposed expenditures and the means of financing them.
2. The Draft budget is legally enacted through the adoption of a resolution by the Board.
3. A final operating and capital improvement budget is submitted to the Board at the September Board meeting. The budget is legally enacted through the adoption of a resolution by the Board.
4. Formal budgetary integration is employed as a management control device during the fiscal year for the General Fund. The Capital Project Fund is budgeted over the life of the project.
5. Budgets for the General Fund, Special Revenue Fund and the Capital Project Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. The Special Revenue Fund is only used to accumulate special tax revenues, which are then transferred to the other funds as needed.

***Encumbrances***

Encumbrance accounting, under which purchases 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 Capital Project Fund. There are no appropriations or encumbrances in the Special Revenue Fund. All appropriations lapse at fiscal year end.

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Cash and Investments***

Cash and investments include amounts in demand deposits as well as short-term investments. Substantially all of the District's cash and investments are held by the County of Contra Costa (County) as its fiscal agent. The District's investments are reported at fair value. The fair value represents the amount the District could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. The fair value of investments is obtained by using quotations obtained from independent published sources. The District also maintains a general checking account to facilitate the processing of small transactions.

As permitted by the California Government Code, contracts and agreements, the District is permitted to invest in the County's cash and investment pool, obligations of the U.S. Treasury or its agencies; certificates of deposits; mutual funds invested in U.S. Government securities; and other permitted investments.

***Capital assets***

Capital assets, which include land, buildings, rolling stock (vehicles), and equipment and furniture, are valued at historical cost. Donated capital assets are valued at their estimated fair market value on the date donated. Capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements.

Depreciation has been computed using the straight-line method over the following estimated useful lives:

Building and improvements	15 to 40 years
Rolling stock, equipment and furniture	5 to 15 years

***Property Taxes and Special Assessments Revenue***

Revenue is recognized in the fiscal year for which the tax and assessment are levied. The County levies, bills and collects property taxes and special assessments for the District; under the County's "Teeter Plan," the County remits the entire amount levied and handles all delinquencies while retaining related interest and penalties.

The Surety Bond Compensations, because of the default of the contractor, are recorded as deferred revenue when collected. New contractor will provide the costs to finish the project. Gain or loss will be calculated and recognized when the costs to complete the projects are known.

Taxes are levied for each fiscal year on taxable real and personal property situated in the County. The levy is based on the assessed values as of the preceding January 1st, which is also the lien date. Property taxes on the secured roll are due in two installments: November 1st and February 1st and become delinquent after December 10th and April 10th, respectively. Supplemental property taxes are levied based on changes in assessed values between the date of real property sales or construction completion and the preceding assessment date. The additional supplemental property taxes are prorated from the first day of the month following the date of such occurrence. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31st.



**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Interfund Transactions*

All interfund transactions are treated as transfers. The general fund is the main operating fund for the District. Annually, tax revenues recorded in the special revenue fund are transferred to the general fund to fund the District's operations. Transfers between governmental funds are eliminated as part of the adjustments to the government-wide presentation.

*Use of Estimates*

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Effects of New Pronouncements*

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits (OPEB). The GASB statement generally requires that employers account for and report the annual OPEB cost and the outstanding obligations and commitments related to OPEB in essentially the same manner as employers currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. At July 1, 2008, the District implemented GASB Statement No. 45 prospectively and as such, the District did not have a net OPEB obligation at transition (i.e., July 1, 2007). The District pays all health care insurance premiums for retired employees. Employees became eligible for these benefits when they reached normal retirement age while working for the District. As of June 30, 2011, the District's annual OPEB expense of \$64,693 and the current year requirements have been met as of June 30, 2011.

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 3 – POSTEMPLOYMENT HEALTHCARE BENEFITS**

***Plan Description***

The District provides postretirement health benefits (medical, dental and vision) to a closed group of former employees who have retired from the District and to their surviving spouses and dependent children. The District pays 100% of the annuitants' health plan premiums. Currently, a total of 11 family units (19 individuals), are receiving postretirement health benefits.

In October 2008, KFPD participated in the California Employers' Retiree Benefits Trust (CERBT). CERBT is an irrevocable trust fund that allows public employers to prefund the future cost of their retiree health insurance benefits and other postemployment benefits (OPEB) for their covered retirees. The District elected to participate in CERBT and contributed total of \$1,165,000 to CalPERS, the CERBT's administrator. The prefunding was intended to reduce and stabilize the District's annual required contribution to its OPEB plan in future years at an expected level for budgeting purposes. CalPERS issued a publicly available financial report that includes financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

***Funding Policy***

The contribution requirements of plan members and the District are established and may be amended by the Board. As of June 30, 2011, the District contributed \$64,693, or 100%, of the OPEB cost, to the CERBT.

The District is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years.

***Annual OPEB Cost***

As of June 30, 2011, the District's annual other postemployment benefit (OPEB) expense of \$168,667 was equal to the ARC. The following table represents annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation.

<b>Fiscal year ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2011	\$ 64,493	100%	\$ -

The actuarial valuation was performed as of July 1, 2008 covering the fiscal year ended June 30, 2009. The next valuation will be performed biennially as of July 1, 2010, assuming that no other significant changes occur.

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 3 – POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)**

***Funded Status and Funding Progress***

Using the most recent actuarial valuation date of July 1, 2010, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 1,696,619
Actuarial value of plan assets	<u>(1,368,098)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 328,521</u>
Funded ratio (actuarial value of plan assets/AAL)	80.64%
Covered payroll (active plan members)	\$ -
UAAL as a percentage of covered payroll	0.00%

Based upon 7.75% discount rate.

KFPD has commissioned an updated actuarial valuation to be dated July 1, 2011.

***Actuarial Methods and Assumptions***

Actuarial valuations of an ongoing plan involved estimates of the value of reported amounts and assumptions about the probability of occurrence of certain events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents current year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2010 actuarial valuation, a level dollar amortization method was used. Under this method, the amortization period is 20 years. The healthcare cost trend rate assumptions included a 7.75 percent investment rate of return and an annual healthcare cost trend rate of 7.9 percent in 2011 (8.5 percent initially in 2008), reduced by decrements to an ultimate rate of 5.5 percent after ten years. CERBT's unfunded actuarial accrued liability is being amortized as a level dollar amortization on a closed basis. The remaining amortization period at July 1, 2011 was seventeen years.

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 3 – POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)**

As of June 30, 2011, KFPD paid \$131,463 directly to medical service provider vendors, increasing the CERBT balance by \$66,770, netting to the OPEB costs of \$64,693. In addition, the District contributed another \$602,659 to bring the Net OPEB Assets (before Actuarial Valuation) on KFPD’s balance sheet to \$1,155,985.

**NOTE 4 - 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, rolling stock 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. In addition, compensated absences are accrued on the governmental activities statement of net assets but not on the balance sheet since they also have a long-term economic focus.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>Differences</b>		
Cost of capital assets	\$ 2,335,871	\$ 2,270,915
Accumulated depreciation	<u>(1,074,070)</u>	<u>(974,226)</u>
Net capital assets	<u>1,261,801</u>	<u>1,296,689</u>
<b>Net difference</b>	<u><u>\$ 1,261,801</u></u>	<u><u>\$ 1,296,689</u></u>

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 5 - 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 rolling stock and equipment items during the year and increased (decreased) by the amount of net gain (loss) on disposal of capital assets. In addition, the fund balance is reduced to account for the recording of compensated absences, which has a long-term focus.

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
<b>Differences</b>		
Capital outlay	\$ 65,754	\$ 94,244
Net gain (loss) on disposal of capital assets	-	(1,430)
Depreciation expense	(100,642)	(98,986)
<b>Net difference</b>	<b>\$ (34,888)</b>	<b>\$ (6,172)</b>

**NOTE 6 - CASH AND INVESTMENTS**

The District's cash and investments included the following:

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Deposits	\$ 10,088	\$ 9,333
Cash held by the county	523,782	189,711
Separately held investments - LAIF	3,359,024	2,957,227
Undeposited funds	-	10,000
Petty cash	200	200
<b>Total</b>	<b>\$ 3,893,094</b>	<b>\$ 3,166,471</b>

***Deposits***

At year-end, the carrying amount of the District's demand deposits was \$10,088 with a commercial bank which is covered by federal depository insurance.

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 6 - CASH AND INVESTMENTS (Continued)**

*Cash held by the County*

The District's cash is included in the Contra Costa County (County) Treasurer cash and investments pool. Investments made by the Treasurers are regulated by California Government Code and by a County investment policy approved annually by the County Treasury Oversight Committee. Adherence to the statutes and policies is monitored by the County Board of Supervisors and by the Treasury Oversight Committee via monthly reports and an annual audit. Investment income earned on the District's cash is allocated quarterly to the District. Changes in fair value are included in investment income. Redeemed or sold shares are priced at book value, which includes realized investment earnings such as interest income, realized gains or losses upon sale of investments, and amortized premiums and discounts. This number may differ from the shares' fair value, which would include unrealized gains or losses based on market conditions. Additional information regarding insurance, collateralization, and custodial risk categorization of the County's cash and investments is presented in the notes of the County's basic financial statements.

*Separately Held Investments*

The County also has investments in the State Treasurer's Local Agency Investment Fund (LAIF) separately held for the District. As of June 30, 2011, the District's investment in LAIF is \$3,359,024. The total amount invested by all public agencies under the County Pool in LAIF at June 30, 2011 is \$18,174,000. Of that amount, approximately 0.04% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool.

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 7 - CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2011 follows:

Governmental Activities	Balance June 30, 2010	Current Year Additions	Retirements	Balance June 30, 2011
<i>Capital assets not being depreciated</i>				
Land	\$ 5,800	\$ -	\$ -	\$ 5,800
Construction in progress	-	49,208	-	49,208
Total capital assets not being depreciated	5,800	49,208	-	55,008
<i>Capital assets being depreciated</i>				
Building & improvements	1,384,721	-	-	1,384,721
Equipment & furniture	228,605	16,545	(800)	244,350
Rolling stock equipment	651,789	-	-	651,789
Total capital assets being depreciated	2,265,115	16,545	(800)	2,280,860
<i>Less accumulated depreciation for:</i>				
Building & improvements	(549,819)	(33,864)	-	(583,683)
Equipment & furniture	(100,353)	(20,408)	800	(119,961)
Rolling stock equipment	(324,054)	(46,369)	-	(370,423)
Total accumulated depreciation	(974,226)	(100,641)	800	(1,074,067)
Total capital assets being depreciated, net	1,290,889	(84,096)	-	1,206,793
Capital assets, net	\$ 1,296,689	\$ (34,888)	\$ -	\$ 1,261,801

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; thefts damages, and destructions of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risks of loss. There have been no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the District's insurance coverage in any of the past three fiscal years.

*The Kensington Fire Protection District is a member of Contra Costa County Fire Districts Joint Power of Authority Insurance Pool (CSAC). Deductibles and maximum coverage are as follows:*

**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 8 - RISK MANAGEMENT (Continued)**

<u>Coverage Description</u>	<u>Deductibles</u>	<u>Insurance Coverage</u>
General & Automobile Liability	None	\$50,000,000
All Risk Property	\$500 (all other property)	\$600,000,000 (all other property)
	\$100,000 (flood)	\$600,000,000 (flood)
	\$500 (mobile equip)	
	\$500,000 (terrorism)	\$200,000,000
Earthquake	5% per unit	\$280,000,000
	\$100,000 minimum	
Employee Dishonesty	\$50,000	\$10,000,000
Pollution Liability	\$500,000	\$10,000,000
Boiler & Machinery	\$5,000	\$100,000,000

**NOTE 9 – FUND BALANCES**

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, 2011, 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.



**KENSINGTON FIRE PROTECTION DISTRICT**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**NOTE 9 – FUND BALANCES (continued)**

- *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.

Fund balances for all the major and non-major governmental funds as of June 30, 2011, were distributed as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
<b>Nonspendable:</b>				
Inventory	\$ -	\$ -	\$ -	\$ -
Advances (OPEB)	1,155,985	-	-	1,155,985
Subtotal	<u>1,155,985</u>	<u>-</u>	<u>-</u>	<u>1,155,985</u>
<b>Restricted for:</b>				
General government	-	-	-	-
Public protection	-	-	-	-
Public ways & facilities	-	-	-	-
Capital projects	-	-	-	-
Debt service	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Committed to:</b>				
Public protection	-	-	682,967	682,967
Capital projects	-	-	206,508	206,508
Subtotal	<u>-</u>	<u>-</u>	<u>889,475</u>	<u>889,475</u>
<b>Assigned to:</b>				
General government	-	-	-	-
Public protection	2,132,128	-	-	2,132,128
Capital projects	-	-	-	-
Subtotal	<u>2,132,128</u>	<u>-</u>	<u>-</u>	<u>2,132,128</u>
<b>Unassigned</b>	<u>903,970</u>	<u>9,992</u>	<u>6,146</u>	<u>920,108</u>
<b>Total</b>	<u>\$ 4,192,083</u>	<u>\$ 9,992</u>	<u>\$ 895,621</u>	<u>\$ 5,097,696</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 Fire Protection District  
Kensington, California

I have audited the financial statements of the Kensington Fire Protection District (the "District"), as of and for the fiscal year ended June 30, 2011, and have issued my report thereon dated September 22, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

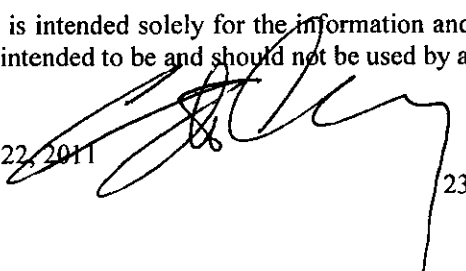
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and others within the District. This is not intended to be and should not be used by anyone other than these specified parties.

September 22, 2011



**KENSINGTON FIRE PROTECTION DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2011**

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

**KENSINGTON FIRE PROTECTION DISTRICT  
CURRENT YEAR FINDINGS  
YEAR ENDED JUNE 30, 2011**

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