
**KENSINGTON FIRE
PROTECTION DISTRICT**

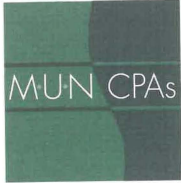
**ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2017**

**Mann, Urrutia, Nelson, CPAs and Associates, LLP
2515 Venture Oaks Way, Suite 135
Sacramento, CA 95833**

KENSINGTON FIRE PROTECTION DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 7
Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	13
Notes to Basic Financial Statements	14 - 27
Required Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual for the General Fund and Special Revenue Fund	29
Schedule of Funding Progress for Other Post Employment Benefit (OPEB)	30
Other Reports:	
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 <i>Government Auditing Standards</i>	31 - 32



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kensington Fire Protection District
Kensington, California

Report on the Financial Statements

We 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our 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 Kensington Fire Protection District, as of June 30, 2017, and the respective changes in financial position, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the other post-employment benefits' schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2018, on our consideration of the Kensington Fire Protection District's internal control over financial reporting and on our 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 our 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 the Kensington Fire Protection District's internal control over financial reporting and compliance.

Sacramento, California
January 17, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

**KENSINGTON FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

The following discussion and analysis of the section of the Kensington Fire Protection District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ending June 30, 2017. This information is presented in conjunction with the audited financial statements.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, June 30, 2017, assets of the District exceeded its liabilities by \$9,370,860 (net position). Of this amount, \$6,071,531 (unrestricted net position) may be used to meet the District's ongoing obligations to the citizens that the District serves.
- The District's total net position increased by \$886,858.
- At the close of the fiscal year, June 30, 2017, the District's general fund reported an ending fund balance of \$3,541,150, a decrease of \$1,307,783 when compared with prior year.
- At the close of the fiscal year, June 30, 2017, the District's special revenue fund reported an ending fund balance of \$100,869, an increase of \$88,100 when compared with the prior year.
- At the close of the fiscal year, June 30, 2017, the District's capital project fund reported an ending fund balance of \$2,429,511, an increase of \$1,210,223 when compared with the prior year.
- At the end of the fiscal year, June 30, 2017, unassigned fund balance for the governmental funds was \$979,535.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

The financial section of this report consists of four parts: Government-wide financial statements, fund financial statements, the notes to the financial statements, and required supplementary information.

The government-wide financial statements are the statement of net position and the statement of activities, which are prepared using the economic resource 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 position and how they have changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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, which 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. Changes in fund balance are reported if they will have an effect on the near-term cash flow of the District.

The notes provide additional information that is essential to the reader for a full understanding of the data provided in the government-wide and fund financial statements.

The required supplementary information presents the District's progress in funding its obligations to provide other post employee benefits as well as the District's budgetary comparison schedules.

**KENSINGTON FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

NET POSITION

The Statement of Net Position presents the financial position of the District on a full accrual basis and provides information about the nature and amount of resources and obligations at year-end. It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The following table summarizes the Statement of Net Position for the fiscal years ending June 30, 2017 and June 30, 2016:

STATEMENT OF NET POSITION

	<u>2017</u>	<u>2016</u>
ASSETS		
Current and other assets	\$ 7,176,338	\$ 6,112,162
Capital assets	<u>2,239,854</u>	<u>2,403,012</u>
Total Assets	<u>9,416,192</u>	<u>8,515,174</u>
LIABILITIES		
Accounts payable and other accruals	<u>45,332</u>	<u>31,172</u>
Total Liabilities	<u>45,332</u>	<u>31,172</u>
NET POSITION		
Net investment in capital assets	2,239,854	2,403,012
Unrestricted	<u>6,071,531</u>	<u>6,080,990</u>
Total Net Position	<u>\$ 8,311,385</u>	<u>\$ 8,484,002</u>

This table summarizes the net position of the District and reflects the net position increase of \$886,858 to \$8,311,385 in fiscal year 2017 from \$8,484,002 in fiscal year 2016. Net investment in capital assets decreased \$163,158 reflecting the net of assets additions/disposals and depreciation on capital assets. Approximately 24% of the District's net position reflects its investment in capital assets (e.g., land, building, machinery, equipment and rolling stock). The District uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. The largest portion of the District's net position, 76.13%, reflects its investment in unrestricted net position. The unrestricted net position is a resource that can be used for transactions relating to the general operations of the District and increased by \$1,062,814 primarily due to conservative spending in anticipation of new building construction.

**KENSINGTON FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

CHANGES IN NET POSITION

The Statement of Net Position is a snapshot that shows assets, liabilities, and net position at a specific point in time. The Statements of Activities provides information on the nature and source of these assets and liabilities represented on the Statement of Net Position. This statement shows that revenues exceeded expenses by \$886,858 for fiscal year 2017.

The following table summarizes the Statement of Activities for the fiscal years ending June 30, 2017 and June 30, 2016:

STATEMENT OF ACTIVITIES

	<u>2017</u>	<u>2016</u>
REVENUES		
General Revenues		
Property taxes	\$ 3,715,003	\$ 3,466,307
Other revenues	<u>357,491</u>	<u>338,876</u>
Total Revenue	<u>4,072,494</u>	<u>3,805,183</u>
EXPENSES		
Public safety-fire protection operation	<u>3,185,636</u>	<u>2,961,014</u>
Total Expenses	<u>3,185,636</u>	<u>2,961,014</u>
Change in net position	<u>886,858</u>	<u>844,169</u>
Net position - beginning	8,484,002	7,639,833
Net position - ending	<u>\$ 9,370,860</u>	<u>\$ 8,484,002</u>

Ending net position totaled \$9,370,860 at June 30, 2017, or an increase in net position of \$886,858 or 11% from June 30, 2016. Total revenues increased by \$267,311 or 7% during the fiscal year 2017 compared to 2016, totaling \$4,072,494. Property tax revenue increased in fiscal year 2017 compared to 2016 by \$248,696 or 7%. Total expenditures increased by \$224,622 or 7% to \$3,185,636 in 2017, primarily due to 7.7% increase in El Cerrito service contract.

**KENSINGTON FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS

The District's investment in capital assets, net of accumulated depreciation, as of June 30, 2017 and 2016 was \$2,239,854 and \$2,403,011 respectively. The decrease in capital assets is primarily due to current year depreciation.

CAPITAL ASSETS

	2017	2016
Land	\$ 5,800	\$ 5,800
Building and improvements	2,391,580	2,391,580
Equipment and furniture	853,902	847,906
Rolling stock	570,195	872,094
Subtotal	3,821,477	4,117,380
Less accumulated depreciation	(1,581,623)	(1,714,369)
Total net capital assets	\$ 2,239,854	\$ 2,403,011

Additional information about the District's capital assets can be found in Note 3 in the Notes to the Basic Financial Statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total Revenues exceeded the budget by \$198,000. Property tax revenues were nearly \$145,000 of that. In addition, the new investment strategy returns were better than anticipated. General fund alone exceeded budgeted interest income by \$23,000. Finally, the sale of the Type I Engine brought in proceeds of \$30,000.

Total Expenses were under budget by \$138,000. The largest difference is due to the reporting of the retiree health insurance. During the budget process, the line item above was set to equal the OPEB cost in the actuarial report. For FY 16/17 that figure was \$44,395. During the audit, because KFPD is fully funded, all cash payments for retirees' health are netted against withdrawals from the CERBT and expensed directly. For FY 16/17 that calculation was as follows:

\$ 99,035	Payments made directly to insurance providers
(105,784)	Cash withdrawals from CERBT
\$ (6,749)	Net Difference

This created a \$51,000 under budget item in Expenses.

Building utilities/ services include the Needs Assessment/ Feasibility Study & Programming. This line item was budgeted for \$150,000, but ended up over budget by \$45,000.

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.

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.

**KENSINGTON FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

Capital project fund: The capital project fund receives no tax revenue of its own, and 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.

The final budget was adopted by the Board of Directors at the September 2016 meeting. A revised version was adopted by the Board of Directors at the February 2017 meeting.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The primary factor affecting expenditures in the District's fiscal year 2017-18 budget is the City of El Cerrito service contract fee.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the finances for the Kensington Fire Protection District. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Kensington Fire Protection District, 217 Arlington Avenue, Kensington, CA 94707.

FINANCIAL STATEMENTS

KENSINGTON FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and investments (Note 2)	\$ 6,033,702
Accounts receivable	64,248
Interest receivable	10,167
Prepaid expenses	8,746
Net OPEB asset (Note 6)	1,059,475
Capital assets (Note 3)	
Nondepreciable capital assets	5,800
Depreciable capital assets, net	<u>2,234,054</u>
Total Assets	<u>9,416,192</u>
<u>LIABILITIES</u>	
Accounts payable and other accruals	<u>45,332</u>
Total Liabilities	<u>45,332</u>
<u>NET POSITION</u>	
Net investment in capital assets	2,239,854
Restricted	1,059,475
Unrestricted	<u>6,071,531</u>
Total Net Position	<u>9,370,860</u>
Total Liabilities and Net Position	\$ <u>9,416,192</u>

See accompanying notes to the basic financial statements.

KENSINGTON FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Governmental Activities	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities
General Government	\$ <u>3,185,636</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(3,185,636)</u>
Total Governmental Activities	\$ <u><u>3,185,636</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>(3,185,636)</u></u>
General Revenues:				
				\$ 3,941,762
				1
				46,279
				<u>84,452</u>
				<u>4,072,494</u>
				<u>886,858</u>
				<u>8,484,002</u>
				<u><u>\$ 9,370,860</u></u>

See accompanying notes to the basic financial statements.

KENSINGTON FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and investments	\$ 3,507,465	\$ 100,869	\$ 2,425,368	\$ 6,033,702
Advance on Supplemental taxes	44,927	-	-	44,927
Accounts receivable	1,337	-	-	1,337
Interest receivable	6,010	-	4,157	10,167
Prepaid expenses	8,746	-	-	8,746
Reimbursements and other	<u>17,983</u>	<u>-</u>	<u>-</u>	<u>17,983</u>
Total Assets	<u>3,586,468</u>	<u>100,869</u>	<u>2,429,525</u>	<u>6,116,862</u>
<u>LIABILITIES</u>				
Accounts payable and other accruals	40,004	-	14	40,018
Wages payable	<u>5,314</u>	<u>-</u>	<u>-</u>	<u>5,314</u>
Total Liabilities	<u>45,318</u>	<u>-</u>	<u>14</u>	<u>45,332</u>
<u>FUND BALANCE</u>				
Non-spendable	8,746	-	-	8,746
Committed	-	-	2,418,425	2,418,425
Assigned	2,552,869	100,869	11,086	2,664,824
Unassigned	<u>979,535</u>	<u>-</u>	<u>-</u>	<u>979,535</u>
Total Fund Balance	<u>3,541,150</u>	<u>100,869</u>	<u>2,429,511</u>	<u>6,071,530</u>
Total Liabilities and Fund Balances	<u>\$ 3,586,468</u>	<u>\$ 100,869</u>	<u>\$ 2,429,525</u>	<u>\$ 6,116,862</u>

See accompanying notes to the basic financial statements.

KENSINGTON FIRE PROTECTION DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances of governmental funds	\$ 6,071,530
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds, net of accumulated depreciation of \$1,581,623	2,239,854
Other long-term assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Net other post employment benefit (OPEB) asset	<u>1,059,476</u>
Net position of governmental activities	<u>\$ 9,370,860</u>

See accompanying notes to the basic financial statements.

KENSINGTON FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Special Revenue Fund	Capital Project Fund	Total Governmental Fund
<u>REVENUES</u>				
Property taxes	\$ 3,715,003	\$ -	\$ -	\$ 3,715,003
Special taxes	-	200,287	-	200,287
Other taxes	26,472	-	-	26,472
Other revenues	1,388	-	-	1,388
Lease income	1	-	-	1
Salary reimbursement income	53,064	-	-	53,064
Investment income	37,105	-	9,174	46,279
	<u>3,833,033</u>	<u>200,287</u>	<u>9,174</u>	<u>4,042,494</u>
Total Revenues				
<u>EXPENDITURES</u>				
Current expenditures/expenses:				
City of El Cerrito service contract	2,552,869	-	-	2,552,869
Retiree health insurance	(6,949)	-	-	(6,949)
Firefighter's apparel/ expenses	28,166	-	-	28,166
Insurance	12,943	-	-	12,943
Office wages and related expenses	109,479	-	-	109,479
Contra Costa county expenses	29,877	2,187	32	32,096
Wildland vegetation management	7,450	-	-	7,450
Fire abatement contract	265	-	-	265
LAFCO	2,124	-	-	2,124
Professional development	2,609	-	-	2,609
Outside professional service fees	46,434	-	-	46,434
Public education	6,511	-	-	6,511
Office equipment and supplies	3,776	-	-	3,776
Building utilities/ services	227,400	-	-	227,400
Memberships	7,176	-	-	7,176
Community service activities	35,844	-	-	35,844
Staff appreciation	1,136	-	-	1,136
Capital outlay	7,788	-	-	7,788
	<u>3,074,898</u>	<u>2,187</u>	<u>32</u>	<u>3,077,117</u>
Total Expenditures				
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from sale of capital assets	30,000	-	-	30,000
Transfers in	483,919	-	1,575,000	2,058,919
Transfers out	(1,575,000)	(110,000)	(373,919)	(2,058,919)
	<u>(1,061,081)</u>	<u>(110,000)</u>	<u>1,201,081</u>	<u>30,000</u>
Total other financing sources (uses)				
Change in Fund Balance	<u>(302,946)</u>	<u>88,100</u>	<u>1,210,223</u>	<u>995,377</u>
Fund Balance - July 1, 2016	<u>4,848,933</u>	<u>12,769</u>	<u>1,219,288</u>	<u>6,080,990</u>
Prior period adjustment (Note 8)	<u>(1,004,837)</u>	<u>-</u>	<u>-</u>	<u>(1,004,837)</u>
Fund balance - July 1, 2016, restated	<u>3,844,096</u>	<u>12,769</u>	<u>1,219,288</u>	<u>5,076,153</u>
Fund Balance - June 30, 2017	<u>\$ 3,541,150</u>	<u>\$ 100,869</u>	<u>\$ 2,429,511</u>	<u>\$ 6,071,530</u>

See accompanying notes to the basic financial statements.

KENSINGTON FIRE PROTECTION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Reconciliation of the change in fund balances - governmental funds to the change in net position of governmental activities:

Change in fund balances - governmental funds	\$	995,377
The governmental funds report capital outlays as expenditures while governmental activities report depreciation as expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		7,788
Depreciation expense		(170,945)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund:		
Change in other post employment benefits		<u>54,638</u>
Change in net position of governmental activities	\$	<u><u>886,858</u></u>

See accompanying notes to the basic financial statements.

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the 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, 2020. The annual fee that the District paid under this contract for the fiscal years ended June 30, 2017 and 2016 totaled \$2,552,869 and \$2,369,530 respectively.

B. Basis of Presentation

The District's basic financial statements are prepared in conformity with accounting principals generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These standards require that the financial statements described below be presented.

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include the activities of the District's overall government. The District's net position is reported in three parts: net investment in capital assets; restricted net position; and unrestricted net position. The District first utilizes restricted resources to finance qualifying activities. Governmental activities generally are financed through taxes and other nonexchange revenues.

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

Fund Financial Statements

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. A fund is established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions, or limitations. Governmental resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's funds, all of which are considered to be major governmental funds, are reported as separate columns in the fund financial statements. The District uses the following funds:

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported.

All governmental funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Property taxes are recognized as revenue 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.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means knowing or being able to reasonably estimate the amount and "available" means that revenues are collectible within the current period or soon enough thereafter to pay current liabilities. For this purpose, the District considers special and other taxes to be available if they are collected within 90 days of year-end. The District considers property taxes to be available if they are collected within 60 days of year-end. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, such as vacation and sick leave, which are recognized when due.

D. Cash and Investments

Cash and investments include amounts in demand deposits as well as short-term and long-term investments with the county investment pool. 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.

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

E. Capital Assets

In the government-wide financial statements, 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, which include land, buildings, rolling stock (vehicles), and equipment/ furniture, are valued at historical cost, or an estimate of historical cost if actual cost is unavailable. Donated capital assets are valued at their estimated fair market value on the date received. Depreciation is computed for financial statement purposes using the straight-line method. The estimated useful lives for these depreciated assets are as follows:

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

F. Property Taxes

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.

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.

G. Equity Classifications

Government-Wide Statements

Net position is the excess of all the District's assets over all of its liabilities, regardless of fund. Net position is divided into three categories. These categories apply only to net position, which is determined at the government-wide level, and are described below:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, constructions, or improvements of those assets.
- b. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that do not meet the definition of "net investment in capital assets," or "restricted."

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- a. Nonspendable - Amounts that cannot be spent because they are either (a) not in spendable form 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.
- b. Restricted - Amounts that are restricted for specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- c. Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the district's highest level of decision-making authority. 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).
- d. Assigned - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed. *Intent* is expressed by (a) the District's Board or (b) a body (for example: a budget or finance committee) or (c) official to which the District's Board has delegated the authority to assign amounts to be used for specific purpose.
- e. Unassigned - Amounts representing the residual classification for the general fund, and includes all amounts not contained in the other classifications.

Further detail about the District's fund balance classification is described in Note 4.

H. Budgets and Budgetary Accounting

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

- a. 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.
- b. The Draft budget is legally enacted through the adoption of a resolution by the Board.
- c. 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.
- d. 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.
- e. 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.
- f. The Special Revenue Fund is only used to accumulate special tax revenues, which are then transferred to the other funds as needed.

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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 Capital Project Fund. There are no appropriations or encumbrances in the Special Revenue Fund. All appropriations lapse at fiscal year-end.

J. 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.

K. Use of Estimates

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

L. Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2017 or later and may be applicable to the District. However, the District has not determined the effects, if any, on the financial statements.

Government Accounting Standards Board Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB, and replaces Statements No. 45 and 57. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2018.

Government Accounting Standards Board Statement No. 85

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Application of this statement is effective for the Agency's fiscal year ending June 30, 2018. The District has not determined what impact, if any, this pronouncement will have on the financial statements.

Government Accounting Standards Board Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of this statement is effective for the District's fiscal year ending June 30, 2021. The District has not determined what impact, if any, this pronouncement will have on the financial statements.

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS

Cash and investments at June 30, 2017 consisted of the following:

Deposits	\$	11,398
Cash held by the county		780,968
Local agency investment fund		2,741,136
Certificates of deposit		500,000
Fixed income securities		2,000,000
Petty cash		<u>200</u>
Total Cash and Investments	\$	<u>6,033,702</u>

Deposits

At year-end, the carrying amount of the District's demand deposits was \$11,398 with a commercial bank which is covered by federal depository insurance.

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, 2017, the District's investment in LAIF is \$2,741,136 which is approximately 1.36% of total Contra Costa County LAIF. The total amount invested by all public agencies under the County Pool in LAIF at June 30, 2017 is \$201,322,088. Of that amount, approximately 11.92% 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 designed 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 from the fair value of the District's position in the pool.

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

Authorized Investments of the District

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that addresses interest rate risk, credit risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligation	5 years	None	None
Banker's Acceptances	180 days	10%	5%
Commercial Paper	270 days	25%	5%
Certificates of Deposit	5 years	30%	None
Bank Deposits	5 years	None	None
MediumTerm Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
CD Placement Services	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Funds (CalTRUST)	N/A	None	None
U.S. Agency Obligations	5 years	None	None

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2017:

	<u>Remaining Maturity</u>		
	<u>12 months or less</u>	<u>1-5 years</u>	<u>Fair Value</u>
Fixed Income Securities	\$ -	\$ 2,000,000	\$ 2,000,000
Certificates of Deposit	-	500,000	500,000
Local Agency Investment Fund	<u>2,741,136</u>	<u>-</u>	<u>2,741,136</u>
	<u>\$ 2,741,136</u>	<u>\$ 2,500,000</u>	<u>\$ 5,241,136</u>

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the investment policy, or debt agreements, and the actual rating as of the fiscal year for each investment type.

	Total	Rating as of Fiscal Year End		
		S&P	Moody's	N/A
Fixed Income Securities	\$ 2,000,000	AAAm		
Certificates of Deposit	500,000			Not rated
Local Agency Investment Fund	<u>2,741,136</u>			Not rated
	<u>\$ 5,241,136</u>			

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2017 there were no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of the total District investments.

Investment Valuation

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 3 inputs.

The following tables set forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2017.

	Level 1	Level 2	Level 3	Total
Fixed Income Securities	\$ -	\$ 2,000,000	\$ -	\$ 2,000,000
Certificates of Deposit	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Total assets at fair value	<u>\$ 500,000</u>	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ 2,500,000</u>

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3: CAPITAL ASSETS

The District's capital asset activity during the year was as follows:

Governmental activities:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2017</u>
Capital assets not being depreciated				
Land	\$ 5,800	\$ -	\$ -	\$ 5,800
Total capital assets not being depreciated	<u>5,800</u>	<u>-</u>	<u>-</u>	<u>5,800</u>
Capital assets being depreciated				
Building and improvements	2,391,580	-	-	2,391,580
Equipment and furniture	847,906	7,788	(1,792)	853,902
Rolling stock equipment	872,094	-	(301,899)	570,195
Total capital assets being depreciated	<u>4,111,580</u>	<u>7,788</u>	<u>(303,691)</u>	<u>3,815,677</u>
Less accumulated depreciation for				
Building and improvements	(858,754)	(70,713)	-	(929,467)
Equipment and furniture	(299,711)	(35,993)	1,792	(333,912)
Rolling stock equipment	(555,904)	(64,239)	301,899	(318,244)
Total accumulated depreciation	<u>(1,714,369)</u>	<u>(170,945)</u>	<u>303,691</u>	<u>(1,581,623)</u>
Total capital asset being depreciated, net	<u>2,397,211</u>	<u>(163,157)</u>	<u>-</u>	<u>2,234,054</u>
Total capital assets, net	<u><u>2,403,011</u></u>	<u><u>(163,157)</u></u>	<u><u>-</u></u>	<u><u>2,239,854</u></u>

Depreciation expense totaled \$170,945 for the year ended June 30, 2017.

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4: FUND BALANCE

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

The Board of Directors, as the District's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal action. Committing fund balance is accomplished by approval of an action item by the Board of Directors. These committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use through the same type of formal action taken to establish the commitment.

Assigned fund balance are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted or committed.

The accounting policies of the District consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts, and unassigned amounts.

As of June 30, 2017, fund balances were comprised of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
Nonspendable				
Prepaid	\$ 8,746	\$ -	\$ -	\$ 8,746
Subtotal	<u>8,746</u>	<u>-</u>	<u>-</u>	<u>8,746</u>
Committed				
Public protection	-	-	583,993	583,993
Capital projects	-	-	<u>1,834,432</u>	<u>1,834,432</u>
Subtotal	<u>-</u>	<u>-</u>	<u>2,418,425</u>	<u>2,418,425</u>
Assigned				
Public protection	2,552,869	100,869	-	2,653,738
Capital projects	-	-	<u>11,086</u>	<u>11,086</u>
Subtotal	<u>2,552,869</u>	<u>100,869</u>	<u>11,086</u>	<u>2,664,824</u>
Unassigned	<u>979,535</u>	<u>-</u>	<u>-</u>	<u>979,535</u>
Total Fund Balance	<u>\$ 3,541,150</u>	<u>\$ 100,869</u>	<u>\$ 2,429,511</u>	<u>\$ 6,071,530</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.

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5: INTERFUND TRANSFERS TO/FROM OTHER FUNDS

Transfers between funds during the fiscal year ended June 30, 2017 were as follows:

<u>Transfer from</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Capital Project Fund	\$ 1,575,000
Special Revenue Fund	General Fund	110,000
Capital Project Fund	General Fund	<u>373,919</u>
	Total Interfund Transfers	\$ <u><u>2,058,919</u></u>

NOTE 6: OTHER POST EMPLOYMENT BENEFITS (OPEB)

Description of the Plan

The District provides post-retirement 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 10 family units (15 individuals) are receiving post-retirement health benefits.

The District participates in the California Employer's Retiree Benefit 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 post employment benefits (OPEB) for their covered retirees. The District elected to participate in CERBT and contributed a total of \$1,165,000 in October 2008 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. For the year ended June 30, 2017, the District contributed \$99,035, or 100% of the OPEB cost, to the CERBT.

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6: OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation (Asset)

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with 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 accrued liabilities (UAAL) (or funding costs) over a period not to exceed twenty years.

For the year ended June 30, 2017, the District's annual required contribution for the healthcare plan was \$2,940. The District's annual OPEB cost contributed to the plan and the net OPEB obligation (asset) for the year ended June 30, 2017 were as follows:

Annual required contribution (ARC)		
Normal cost	\$	-
30-year amortization of funded liability		<u>2,940</u>
Total annual required contribution		<u>2,940</u>
Interest on net OPEB obligation (asset)		(72,029)
Adjustment to annual required contribution		<u>113,486</u>
Total annual OPEB cost		<u>44,397</u>
Employer contributions paid for retirees		<u>(99,035)</u>
Net increase in net OPEB obligation (asset)		<u>(54,638)</u>
Net OPEB obligation (asset), June 30, 2016		<u>(1,004,837)</u>
Net OPEB obligation (asset), June 30, 2017	\$	<u>(1,059,475)</u>

The following table represents annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation (asset).

<u>Year-Ended</u>	<u>Annual OPEB cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB Obligation (Asset)</u>
6/30/16	\$ 24,859	\$ 104,813	100 %	\$ (1,004,837)
6/30/17	\$ 44,397	\$ 99,035	100 %	\$ (1,059,475)

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6: OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Funded Status and Funding Progress

The funded status of the plan based on an actuarial study performed as of June 30, 2015, is as follows:

Actuarial accrued liability (AAL)	
Active employees	\$ -
Retired employees	<u>1,537,671</u>
Total	<u>1,537,671</u>
Market value of plan assets	<u>1,479,474</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 58,197</u>
Funded ratio (actuarial value of plan assets / AAL)	96 %
Covered payroll (active plan members)	\$ -

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on the values which the District's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of what future costs may actually be. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status, could result in actual costs being less or greater than estimated.

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2015 actuarial valuation, the actuarial cost method used for determining the benefit obligations is the Entry Age Normal. The actuarial assumptions include a 6.73 percent discount rate, 3.25% wage inflation, and an annual healthcare cost medical trend rate of 8 percent (pre-65) and 5.5 percent (post-65). The unfunded actuarial accrued liability is being amortized as a level percent of payroll over a 30-year fixed period, with 13 years remaining as of the most recent actuarial report. The valuation is a closed group valuation, that is, no future hires are assumed.

KENSINGTON FIRE PROTECTION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7: RISK MANAGEMENT

The Kensington Fire Protection District is a member of Contra Costa County Fire District's Joint Power of Authority Insurance Pool (CSAC). The District is exposed to various risks of loss related to torts, theft damages, destruction of assets, public officials' errors and omissions, injuries to employees, and natural disasters. The District carries commercial insurance for risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any recent fiscal year, and there has been no significant reduction in insurance coverage over the past three fiscal years.

The District's deductibles and maximum coverage are as follows:

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

NOTE 8: PRIOR PERIOD ADJUSTMENT

At June 30, 2016, the net OPEB asset totaling \$1,004,837 was incorrectly reported as an asset in the general fund on the Governmental Funds Balance Sheet. The net OPEB asset should only be reported as an asset on the government-wide statement of net position. Therefore, fund balance in the general fund at July 1, 2016 was reduced by \$1,004,837 to reflect the removal of the asset from the fund.

REQUIRED SUPPLEMENTARY INFORMATION

KENSINGTON FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL FOR THE GENERAL FUND AND SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund			Special Revenue Fund		
	Final Budget	Actual	Variance with Final Budget Under (Over)	Final Budget	Actual	Variance with Final Budget Under (Over)
REVENUES						
Property taxes	\$ 3,570,295	\$ 3,715,003	\$ (144,708)	\$ -	\$ -	\$ -
Special taxes	-	-	-	200,287	200,287	-
Other taxes	26,000	26,472	(472)	-	-	-
Other revenues	-	1,388	(1,388)	-	-	-
Lease income	1	1	-	-	-	-
Salary reimbursement income	54,600	53,064	1,536	-	-	-
Investment income	14,000	37,105	(23,105)	-	-	-
Total Revenues	3,664,896	3,833,033	(168,137)	200,287	200,287	-
EXPENDITURES						
Current expenditures/expenses:						
City of El Cerrito service contract	2,552,869	2,552,869	-	-	-	-
Retiree health insurance	44,395	(6,949)	51,344	-	-	-
Firefighter's apparel/ expenses	37,000	28,166	8,834	-	-	-
Insurance	12,110	12,943	(833)	-	-	-
Office wages and related expenses	111,344	109,479	1,865	-	-	-
Contra Costa county expenses	32,130	29,877	2,253	2,200	2,187	13
Wildland vegetation management	10,000	7,450	2,550	-	-	-
Water system improvement	20,000	-	20,000	-	-	-
Fire abatement contract	8,000	265	7,735	-	-	-
LAFCO	1,850	2,124	(274)	-	-	-
Professional development	5,000	2,609	2,391	-	-	-
Outside professional service fees	48,000	46,434	1,566	-	-	-
Public education	13,000	6,511	6,489	-	-	-
Office equipment and supplies	6,000	3,776	2,224	-	-	-
Building utilities/ services	188,400	227,400	(39,000)	-	-	-
Memberships	7,675	7,176	499	-	-	-
Community service activities	66,450	35,844	30,606	-	-	-
Staff appreciation	4,000	1,136	2,864	-	-	-
Contingency	25,000	-	25,000	-	-	-
Capital outlay	20,000	7,788	12,212	-	-	-
Total Expenditures	3,213,223	3,074,898	138,325	2,200	2,187	13
Subtotal - Revenues Less Expenditures	451,673	758,135	(306,462)	198,087	198,100	(13)
OTHER FINANCING SOURCES (USES)						
Proceeds from the sale of capital assets	-	30,000	30,000	-	-	-
Transfers in	-	483,919	483,919	-	-	-
Transfers out	-	(1,575,000)	(1,575,000)	-	(110,000)	(110,000)
Total other financing sources (uses)	-	(1,061,081)	(1,061,081)	-	(110,000)	(110,000)
Change in Fund Balance	451,673	(302,946)	(754,619)	198,087	88,100	(109,987)
Fund Balance - July 1, 2016		4,848,933			12,769	
Prior period adjustment		(1,004,837)			-	
Fund balance - July 1, 2016, restated		3,844,096			12,769	
Fund Balance - June 30, 2017		\$ 3,541,150			\$ 100,869	

**KENSINGTON FIRE PROTECTION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS (OPEB)
AS OF JUNE 30, 2017

<u>Year End Date</u>	<u>Normal Accrued Liability</u>	<u>Market Value of Assets</u>	<u>Liability (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll (Active Members)</u>	<u>UAAL (Excess Assets) as a % of Covered Payroll</u>
2016	\$ 1,303,354	\$ 1,529,428	\$ (226,074)	117 %	\$ -	- %
2017	\$ 1,537,671	\$ 1,479,474	\$ 58,197	96 %	\$ -	- %

OTHER REPORTS



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

To the Board of Directors
Kensington Fire Protection District
Kensington, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund, of the Kensington Fire Protection District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Kensington Fire Protection District's basic financial statements, and have issued our report thereon dated January 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Kensington Fire Protection District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kensington Fire Protection District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kensington Fire Protection District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Mandant: [unclear] CPAs".

Sacramento, California
January 17, 2018