

**FERN CREEK FIRE PROTECTION DISTRICT**

**Combined Financial Statements and Supplementary Information**

*Year Ended June 30, 2013*

*with Report of Independent Auditors*

## CONTENTS

	<u>Pages</u>
Report of Independent Auditors.....	1 - 2
Management's Discussion and Analysis.....	3 - 4
Combined Financial Statements:	
Combined Government-Wide Financial Statements:	
Combined Statement of Net Position.....	5
Combined Statement of Activities.....	6
Combined Fund Financial Statements:	
Combined Balance Sheet - Governmental Funds.....	7
Reconciliation of the Combined Balance Sheet - Governmental Funds to the Combined Statement of Net Position.....	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	9
Reconciliation of the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Combined Statement of Activities.....	10
Notes to the Combined Financial Statements.....	11 - 25
Supplementary Information:	
Schedule of Funding Progress for the Length of Service Retirement Program.....	26
Report of Independent Auditors 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</i> Standards.....	27 - 28

DEAN || DORTON || ALLEN || FORD  
PLC**Report of Independent Auditors**

Board of Trustees  
 Fern Creek Fire Protection District and  
 Fern Creek Fire Protection District  
 Holding Company, Inc.  
 Louisville, Kentucky

**Report on the Financial Statements**

We have audited the accompanying combined financial statements of the governmental activities and each major fund of the Fern Creek Fire Protection District and the Fern Creek Fire Protection District Holding Company, Inc. (collectively the District), as of and for the year ended June 30, 2013, and the related notes to the combined financial statements, which collectively comprise the District's basic combined 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 combined 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 combined 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 combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

106 West Vine Street  
 Suite 600  
 Lexington, KY 40507  
 859.255.2341 *phone*  
 859.255.0125 *fax*

First Trust Centre  
 200 South Fifth Street  
 Suite 201 South  
 Louisville, KY 40202  
 502.589.6050 *phone*  
 502.581.9016 *fax*

[www.ddafcpa.com](http://www.ddafcpa.com)

Board of Trustees  
Fern Creek Fire Protection District and  
Fern Creek Fire Protection District  
Holding Company, Inc.  
Louisville, Kentucky

Report of Independent Auditors, continued We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the combined 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, 2013 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 4 and the Schedule of Funding Progress for the Length of Service Retirement Plan Program on page 26 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined 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 September 17, 2013 on our consideration of the 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 District's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

September 17, 2013  
Louisville, Kentucky

# FERN CREEK FIRE PROTECTION DISTRICT

## Management's Discussion and Analysis

Year Ended June 30, 2013

The purpose of the management's discussion and analysis is to provide an overview of the financial activities of the Fern Creek Fire Protection District and Fern Creek Fire Protection District Holding Company, Inc. (collectively the District) based on currently known facts, decisions, or conditions and should be read in conjunction with the District's combined financial statements, which begin on page 5.

### Financial Highlights

The combined financial statements included in this report provide insight into the financial status of the District as of and for the year ended June 30, 2013. The District's operations for the year ended June 30, 2013 resulted in an increase in the District's net assets of \$56,738 and resulted in a net position of \$5,559,704 at June 30, 2013. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District depreciates its capital assets resulting in a calculation of total accumulated depreciation in the amount of \$5,072,329 as of June 30, 2013. Depreciation expense for the year ended June 30, 2013 was \$389,913.

Total expenditures for all governmental funds was \$2,712,243, which was \$37,477 less than the total revenues of \$2,749,720 for the year ended June 30, 2013.

In April 2008, the District entered into a lease agreement with the Kentucky Association of Counties Leasing Trust in order to finance the purchase of a new fire engine and the equipment that is being used on it. With regard to this lease, in Note 5 to the combined financial statements, the District has disclosed various risks associated with an interest rate swap arrangement with a third party financial institution utilized to fix the interest rate paid on the lease. The rate is fixed at 4.01%. The additional disclosures concerning the interest rate swap arrangement are required under GASB Statement No. 53 and include comprehensive and lengthy reporting requirements. If the lease and/or interest rate swap arrangement are terminated prior to maturity for any reason, the District may incur additional costs. However, District management believes that the potential impact on the combined financial statements would not be material.

### Reporting the District as a Whole

There was an increase of \$86,242 in cash and cash equivalents and investments, from \$2,009,585 at June 30, 2012 to \$2,095,827 at June 30, 2013. The combined statement of net assets and the combined statement of activities report financial information about the District as a whole and about its activities in a concise form. These combined statements include all assets and liabilities using the full accrual basis of accounting. All of the 2013 fiscal year's revenues and expenses are taken into account when revenue is earned or an expense is incurred.

### Governmental Activities

The District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. The analysis of governmental funds begins on page 7 of these statements. The revenue for the fiscal year was less than the amount budgeted by \$1,109 and the total expenditures were \$3,752 more than the amounts budgeted. The expenditures that exceeded the budgeted amounts were due primarily to pension costs. The majority of expenditures were less than the amounts budgeted for the seventh consecutive year. This was due to a concerted effort by the Trustees, the Chief and the Board of Directors to reduce expenditures in order to preserve the cash reserves during the current economic recession.

## FERN CREEK FIRE PROTECTION DISTRICT

### Management's Discussion and Analysis, continued

Year Ended June 30, 2013

During the year ended June 30, 2013 the District responded to 965 requests for assistance, of which 336 of those responses were to assist Louisville Metro EMS. Our responses to assist EMS were at nearly the same level of 347 runs that were made in the prior year, even though our response level is only to life threatening situations such as patients having difficulty breathing. Responses to assist EMS were 35% of the District's run volume during the current year, compared to 39% for the prior year. Although the District is experiencing a substantial increase in operating costs for medical responses to assist Louisville Metro EMS, it does not currently charge for those medical services or receive compensation from Louisville Metro Government.

The District levies a property tax at the rate of ten cents (\$.10) per hundred dollars (\$100) of property valuation for both real and personal property. The District is legally prohibited from assessing a rate, which is higher than the ten cents per hundred dollars of valuation. The current property tax rate has been capped for over 60 years and was based on departments that did not have career firefighters. The total cost including benefits to staff a station with career firefighters is approximately \$888,000 per year. At that rate it would cost the District \$2,664,000 to provide 24 hour staffing at the other three stations that are now manned by volunteers and would require that the size of the present budget be more than doubled. Without the assistance of the District's volunteers we would not be able to provide adequate protection to the District. During the past year the number of volunteers decreased from 66 to 57. The District's goal is to have volunteers stay at Station 1 during the overnight hours in order to provide a faster response to calls for assistance. In order to provide sleeping quarters for the volunteers, the administrative offices at Station 1 were moved to Station 2 in 2012. Currently, the District has only one station that is staffed on a 24 hour basis. During the twelve months ended December 31, 2012, the volunteer firefighters served 10,914 hours staffing the stations during their volunteer shifts. They volunteered another 4,426 hours responding to calls for fires, rescues, etc. In addition, the volunteers spent 8,723 hours training to maintain their level of proficiency as a professional firefighter. If the volunteers had been paid the same rate as the career firefighters had been paid, the District's payroll would have increased approximately \$877,000.

The District has only four (4) stations, and yet is responsible for protecting an area that is approximately the size of the City of Louisville, before the merger of city and county governments. Yet, our average response time during the twelve months ended December 31, 2012 of 5:15 was only 27 seconds longer than the average response time of 4:48 during the same twelve months for all the suburban fire districts. The higher average response time is attributed to a longer response time in the rural area of the District. The suburban fire districts are currently updating the computers on the trucks which are manned on a 24 hour basis, so that the closest unit will be able to respond to a call for help, even if the call is outside its district boundary. In the opinion of the District's management, the District consistently provides a high level of service to our community with a minimum level of financial resources.

#### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's financial position and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the District's Chairman, Charles J. Bauer, Jr. CPA, Fern Creek Fire Protection District, P.O. Box 91025, Louisville, KY 40291.

**COMBINED GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**FERN CREEK FIRE PROTECTION DISTRICT**

Combined Statement of Net Position

June 30, 2013

	<u>Governmental Activity</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,551,562
Accounts receivable, property taxes, and other	24,051
Receivable from training academy	44,500
Investments	544,265
Capital assets, net of depreciation	4,417,283
Land	191,141
Volunteer post-employment benefit asset, net	<u>110,390</u>
Total assets	\$ <u>6,883,192</u>
<b>Liabilities</b>	
Accounts payable	\$ 4,951
Accrued wages and benefits	159,870
Note payable, Fire Training Academy	44,500
Capital lease obligations:	
Portion due within one year	260,000
Portion due after one year	<u>854,167</u>
Total liabilities	\$ <u>1,323,488</u>
<b>Net Position</b>	
Investment in capital assets, net of related debt	\$ 3,494,257
Unrestricted	<u>2,065,447</u>
Total net position	\$ <u>5,559,704</u>

*See accompanying notes.*



# FERN CREEK FIRE PROTECTION DISTRICT

## Combined Statement of Activities

Year Ended June 30, 2013

	<u>Governmental Activity</u>
Expenses:	
Salaries, wages, and benefits	\$ 1,746,081
Operating expenses	340,873
Repairs and maintenance expense	144,547
Interest expense and debt refunding fees	69,254
Depreciation and amortization expense	<u>392,227</u>
Total expenses	2,692,982
General revenues:	
Property taxes	2,621,898
State aid incentives and other	118,084
Interest earnings	<u>9,738</u>
Total general revenues	<u>2,749,720</u>
Change in net position	56,738
Net position, beginning of year	<u>5,502,966</u>
Net position, end of year	<u>\$ 5,559,704</u>

*See accompanying notes.*

**COMBINED FUND FINANCIAL STATEMENTS**

**FERN CREEK FIRE PROTECTION DISTRICT**

Combined Balance Sheet - Governmental Funds

June 30, 2013

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,266,872	\$ 284,690	\$ 1,551,562
Accounts receivable, property taxes, and other	24,051	-	24,051
Investments	<u>544,265</u>	<u>-</u>	<u>544,265</u>
Total assets	\$ <u>1,835,188</u>	\$ <u>284,690</u>	\$ <u>2,119,878</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 4,951	\$ -	\$ 4,951
Accrued wages and benefits	<u>159,870</u>	<u>-</u>	<u>159,870</u>
Total liabilities	164,821	-	164,821
Fund balances:			
Nonspendable	4,941	-	4,941
Restricted for:			
Debt service	-	284,690	284,690
Assigned for:			
Vehicle replacement	219,334	-	219,334
Building maintenance	412,755	-	412,755
Training	52,953	-	52,953
Equipment	89,086	-	89,086
Future payroll costs	249,899	-	249,899
Unassigned	<u>641,399</u>	<u>-</u>	<u>641,399</u>
Total fund balances	<u>1,670,367</u>	<u>284,690</u>	<u>1,955,057</u>
Total liabilities and fund balances	\$ <u>1,835,188</u>	\$ <u>284,690</u>	\$ <u>2,119,878</u>

See accompanying notes.

FERN CREEK FIRE PROTECTION DISTRICT

Reconciliation of the Combined Balance Sheet - Governmental Funds to the Combined Statement of Net Position

Total fund balances for governmental funds	\$	1,955,057
Total net position reported for governmental activities in the statement of net position is different because:		
Land and capital assets, net of depreciation, used in governmental activities are not financial resources, and therefore, not reported in the general fund.		4,608,424
Volunteer post-employment benefit (OPEB) asset, net is not available to pay for current expenditures related to the District's Length of Service Retirement Plan and therefore is not reported as an asset in the general fund.		110,390
Long-term liabilities applicable to the District's governmental activities are not reported as fund liabilities. All liabilities including long-term are reported in the statement of net position.		<u>(1,114,167)</u>
Total net position of governmental activities	\$	<u>5,559,704</u>

See accompanying notes.

FERN CREEK FIRE PROTECTION DISTRICT

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2013

	Actual				Over (Under) Budget
	Total Budget	General Fund	Debt Service Fund	Total Governmental Funds	
<i>Revenues:</i>					
Property taxes	\$ 2,621,000	\$ 2,621,898	\$ -	\$ 2,621,898	\$ 898
State aid incentives and other	117,829	118,084	-	118,084	255
Interest earnings	<u>12,000</u>	<u>9,738</u>	<u>-</u>	<u>9,738</u>	<u>(2,262)</u>
<i>Total revenues</i>	2,750,829	2,749,720	-	2,749,720	(1,109)
<i>Expenditures:</i>					
Property and equipment additions:					
Land and buildings	35,000	60,927	-	60,927	25,927
Vehicles and fire fighting equipment	51,500	18,850	-	18,850	(32,650)
Communication and other equipment	15,000	8,620	-	8,620	(6,380)
Personnel operating expenses	23,200	23,121	-	23,121	(79)
Administrative expenses:					
Insurance	42,000	42,117	-	42,117	117
Retirement costs	498,170	497,333	-	497,333	(837)
Legal and accounting	24,500	22,554	-	22,554	(1,946)
Fire prevention	7,000	6,447	-	6,447	(553)
Treasurer's expenses	500	529	-	529	29
Wages, payroll taxes, and insurance	1,283,776	1,283,535	-	1,283,535	(241)
Health and safety programs	20,000	19,323	-	19,323	(677)
Other supplies and miscellaneous	9,400	7,883	-	7,883	(1,517)
Operating expenses:					
Utilities	100,000	101,659	-	101,659	1,659
Gasoline and oil	45,000	53,474	-	53,474	8,474
Fire school, fire fighting, and training supplies	18,259	17,508	-	17,508	(751)
Other supplies and miscellaneous	33,300	36,258	-	36,258	2,958
Training academy	10,000	10,000	-	10,000	-
Repairs and maintenance expenses:					
Vehicles	50,000	50,054	-	50,054	54
Buildings	80,000	56,203	-	56,203	(23,797)
Communication equipment	3,600	2,761	-	2,761	(839)
Fire fighting equipment	16,600	16,861	-	16,861	261
Personnel equipment	200	18,668	-	18,668	18,468
Debt service:					
Principal payments	302,833	-	302,833	302,833	-
Interest payments	38,653	-	38,652	38,652	(1)
Other debt service	<u>-</u>	<u>-</u>	<u>16,073</u>	<u>16,073</u>	<u>16,073</u>
<i>Total expenditures</i>	<u>2,708,491</u>	<u>2,354,685</u>	<u>357,558</u>	<u>2,712,243</u>	<u>3,752</u>
<i>Excess (deficiency) of revenues over expenditures</i>	42,338	395,035	(357,558)	37,477	(4,861)
<i>Other financing sources (uses):</i>					
Issuance of refunding debt	-	-	590,000	590,000	590,000
Payment to refunded debt escrow agent	-	-	(549,529)	(549,529)	(549,529)
Transfers from other funds	-	-	293,775	293,775	293,775
Transfers to other funds	<u>(42,338)</u>	<u>(293,775)</u>	<u>-</u>	<u>(293,775)</u>	<u>(251,437)</u>
<i>Total other financing sources (uses)</i>	<u>(42,338)</u>	<u>(293,775)</u>	<u>334,246</u>	<u>40,471</u>	<u>82,809</u>
<i>Net change in fund balances</i>	\$ <u>-</u>	101,260	(23,312)	77,948	\$ <u>77,948</u>
<i>Fund balances, beginning of year</i>		<u>1,569,107</u>	<u>308,002</u>	<u>1,877,109</u>	
<i>Fund balances, end of year</i>		\$ <u>1,670,367</u>	\$ <u>284,690</u>	\$ <u>1,955,057</u>	

See accompanying notes.

**FERN CREEK FIRE PROTECTION DISTRICT**

Reconciliation of the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Governmental Funds to the Combined Statement of Activities

Net change in fund balances - total governmental funds	\$	77,948
The change in net position reported for governmental activities in the combined statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the combined statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$389,913) exceeded capital outlays (\$88,397) in the current period.		(301,516)
Capital additions were financed through capital leases and notes. In governmental funds these types of financing are considered a source and use of financing, but in the combined statement of net position, these obligations are reported as a liability. Therefore, principal payments on these obligations are not considered an expense in the statement of activities.		837,833
Issuance of refunding debt provides current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		(590,000)
Contributions to the District's Length of Service Retirement Plan are reported as expenditures in governmental funds. Amounts contributed in excess of the annual required contribution are reported as an asset on the statement of net position.		34,787
Governmental funds financial statements report bond call premiums and lease origination costs as an expense. Under government-wide financial statements, lease origination costs are not expensed but capitalized and amortized over the term of the lease obligation.		<u>(2,314)</u>
Change in net position of governmental activities	\$	<u>56,738</u>

*See accompanying notes.*

## FERN CREEK FIRE PROTECTION DISTRICT

### Notes to the Combined Financial Statements

#### 1. Nature of the Organization

The Fern Creek Fire Protection District is a Special Taxing District under Commonwealth of Kentucky law and was established for the purpose of providing fire protection and fire prevention services to the citizens and property owners within its geographic coverage area. The Fern Creek Fire Protection District Holding Company, Inc. is a non-profit corporation which principally finances property and equipment acquisitions.

The combined financial statements include the accounts of the Fern Creek Fire Protection District and the Fern Creek Fire Protection District Holding Company, Inc. (collectively, the District). The District is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the District. The District is exempt from income taxes. Any significant intercompany transactions and balances have been eliminated in combination.

#### 2. Summary of Significant Accounting Policies

##### Change in Accounting Principle

For 2013, the District implemented Governmental Accounting Standard Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities."

GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the District's 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. This change was incorporated in the District's 2013 financial statements; however, there was no effect on beginning net position/fund balance.

##### Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts in the combined financial statements and accompanying notes. Actual results could differ from those estimates.

## FERN CREEK FIRE PROTECTION DISTRICT

### Notes to the Combined Financial Statements

#### 2. Summary of Significant Accounting Policies, continued

##### Combined Government-Wide Financial Statements

In accordance with the GASB, the District has presented a combined statement of net position and a combined statement of activities for the District as a whole. These statements include the primary government and its component units, if applicable. Government-wide accounting is designed to provide a more comprehensive view of the District's operations and financial position as a single economic entity.

Government-wide statements distinguish between governmental-type and business-type activities. Governmental-type activities are those financed through taxes, intergovernmental revenues, and other non-exchange revenues and are usually reported in governmental and internal service funds. The District has no business-type activities.

Policies specific to the government-wide statements are as follows:

*Capitalizing Assets* – Tangible assets used in operations with an initial useful life that extends beyond one year are capitalized. Capital assets are recorded at their historical cost and are depreciated using the straight-line method of depreciation over their estimated useful lives. They are reported net of accumulated depreciation on the combined statement of net position.

##### Combined Fund Financial Statements

The District uses funds to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

A fund is a separate entity with a self-balancing set of accounts. Funds of the District are classified as governmental. This category, in turn, is divided into separate fund types. The fund classifications and a description of each existing fund type follow:

*Governmental Funds* – Governmental funds account for all or most of the District's general activities, including the collection of legally restricted monies, administrative expenses, and the acquisition or construction of capital assets. Governmental funds include:

General Fund – The general operating fund of the District accounts for all financial resources, except those required to be accounted for in other funds.

Debt Service Fund – This fund accounts for the resources accumulated and payments made for principal and interest on general long-term debt associated with capital assets of the District.



## FERN CREEK FIRE PROTECTION DISTRICT

Notes to the Combined Financial Statements, continued

### 2. Summary of Significant Accounting Policies, continued

#### **Measurement Focus and Basis of Accounting**

The accounting and financial treatment applied to a fund is determined by the type of financial statement presentation.

The combined government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows in the statement of activities. In these combined financial statements, capital assets are reported and depreciated in each fund.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the combined balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditures for capital assets are reported as current expenses, and such assets are not depreciated.

#### **Budgetary Accounting**

The budget information reflected in the combined financial statements is the annual budget adopted by the District in accordance with the provisions of Commonwealth of Kentucky law. The budget is prepared on a basis consistent with GAAP.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on-hand and highly liquid investments with an original maturity of three months or less from the date of acquisition.

#### **Investments**

Investments consist of certificates of deposit and are stated at cost plus accrued interest which approximates fair value.

#### **Capital Assets and Land**

Capital assets and land, including buildings and improvements, and equipment, are reported in the governmental activity column in the combined government-wide financial statements. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

## FERN CREEK FIRE PROTECTION DISTRICT

### Notes to the Combined Financial Statements, continued

#### 2. Summary of Significant Accounting Policies, continued

##### Capital Assets and Land, continued

All capital assets are depreciated using the straight-line depreciation method over the following estimated useful lives:

Buildings and improvements	50 years
Light duty apparatus	10 to 15 years
Major fire fighting apparatus	25 years
Vehicles	10 years
Equipment	5 to 15 years

##### Net Position/Fund Balances

In the combined statement of net position, the difference between the District's assets and liabilities is recorded as net position. The three components of net position are as follows:

*Invested in Capital Assets, Net of Related Debt* – This category records capital assets net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowing attributable to the acquisition, construction, or improvement of capital assets.

*Restricted* – Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District has no restricted amounts.

*Unrestricted* – This category represents net position not appropriated for expenditures or legally segregated for a specific future use.

In the combined balance sheet of governmental funds the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into the following classifications, as applicable:

*Nonspendable* – These resources include amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The District's nonspendable funds consisted of prepaid expenses as of June 30, 2013.

*Restricted* – Amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation. The District had funds restricted for debt service as of June 30, 2013.

*Committed* – Amounts constrained for a specific purpose by the District using its highest level of decision-making authority. For resources considered committed the Board of Trustees issues a resolution that can only be changed with another corresponding resolution. The District had no committed funds as of June 30, 2013.

## FERN CREEK FIRE PROTECTION DISTRICT

Notes to the Combined Financial Statements, continued

### 2. Summary of Significant Accounting Policies, continued

#### Net Position/Fund Balances, continued

*Assigned* – Includes amounts that the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts may be assigned by the Board of Trustees or the member from the Board of Trustees given authority to assign amounts. The District had assigned funds for vehicle replacement, building maintenance, training, equipment, and future payroll costs as of June 30, 2013.

*Unassigned* – Includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

It is the policy of the District to spend restricted funds first when both restricted and unrestricted are available. Once restricted funds are spent then committed, assigned and unassigned funds are spent in that order.

#### Compensated Absences

All unpaid, compensated absences that will be liquidated with expendable available financial resources have been accrued as a liability in the general fund. In the combined government-wide statement of net position, the total amount of unpaid, compensated absences is reported within accrued wages and benefits. Earned vacation pay may be paid upon termination of employment.

#### Revenue Recognition – Property Taxes

The District determines the property tax rate by September 1 of each year. The Jefferson County Sheriff collects substantially all real estate property tax revenues and remits monthly to the District its portion, less applicable discounts and collection fees.

The Jefferson County Clerk collects substantially all motor vehicle and delinquent real estate taxes and remits them monthly to the District.

### 3. Deposits and Investments

#### Deposits

The District maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

**FERN CREEK FIRE PROTECTION DISTRICT**

Notes to the Combined Financial Statements, continued

**3. Deposit and Investments, continued**

**Deposits, continued**

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a written deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2013, all deposits were covered by FDIC insurance or a properly executed security agreement.

**Investments**

As of June 30, 2013, the District’s investment balances were as follows:

	Maturity	Amortized Cost	Fair Value
Certificates of deposit:			
Interest rate of 0.65%	May 2014	\$ 249,000	\$ 249,000
Interest rate of 0.45%	February 2014	45,265	45,265
Interest rate of 0.70%	February 2015	250,000	250,000
		\$ 544,265	\$ 544,265

*Interest Rate Risk* – The District does not have a formal written investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates.

*Credit Risk* – Commonwealth of Kentucky law under KRS 66.480, limits investments to obligations of the United States Government, obligations backed by the full faith and credit of the United States Government, obligations of any corporation or agency of the United States Government, certificates of deposits, commercial paper, bonds or securities issued by a state or local government, and shares of mutual funds. The District has no written investment policy that would further limit its investment choices as they are defined in KRS 66.480.

*Concentration of Credit Risk* – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the District’s investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that in the event of failure of the counterparty or bank, the District will not be able to recover the value of its investments held in the possession of an outside party. Consistent with the District's investment policy, as of June 30, 2013, all investments were covered by FDIC insurance or a properly executed collateral security agreement.

**FERN CREEK FIRE PROTECTION DISTRICT**

Notes to the Combined Financial Statements, continued

**4. Capital Assets**

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land and buildings	\$ 4,242,472	\$ 60,927	\$ -	\$ 4,303,399
Vehicles and fire fighting equipment	4,269,962	18,850	-	4,288,812
Communications and other equipment	<u>1,112,667</u>	<u>8,620</u>	<u>(32,745)</u>	<u>1,088,542</u>
Total cost	9,625,101	88,397	(32,745)	9,680,753
Less accumulated depreciation				
Buildings	(1,559,524)	(87,220)	-	(1,646,744)
Vehicles and fire fighting equipment	(2,308,639)	(190,065)	-	(2,498,704)
Communications and other equipment	<u>(846,998)</u>	<u>(112,628)</u>	<u>32,745</u>	<u>(926,881)</u>
Total accumulated depreciation	<u>(4,715,161)</u>	<u>(389,913)</u>	<u>32,745</u>	<u>(5,072,329)</u>
Net book value	<u>\$ 4,909,940</u>	<u>\$ (301,516)</u>	<u>\$ -</u>	<u>\$ 4,608,424</u>

The net book value of capital assets financed through capital leases was \$1,096,371 at June 30, 2013.

**5. Long-Term Debt**

**Capital Lease Obligations**

The District finances certain buildings and firefighting equipment acquisitions under capital lease agreements expiring through 2024. The assets and liabilities on the capital lease are recorded at the fair value of the assets and are depreciated over the estimated productive life of the asset which is generally longer than the lease term.

During the year ended June 30, 2013, the District's capital lease through the Kentucky Area Development District, dated December 1, 2002 with an interest rate of 2.50% to 5.25%, with a principal balance of \$535,000 at the refunding date, was refunded with the proceeds of a capital lease through the Kentucky Bond Corporation, dated November 18, 2012, issued at a premium, with an interest rate of 2.00% to 2.25%. The refunding provided for a cumulative savings of \$60,255 over the life of the leases, resulting in a net present value savings of \$53,492 or 10.0% of refunded principal.

FERN CREEK FIRE PROTECTION DISTRICT

Notes to the Combined Financial Statements, continued

5. Long-Term Debt, continued

Interest Rate Swap

In April 2008, the District entered into a finance lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the original amount of \$850,000 for the purchase of a new fire apparatus. The rate in the lease was fixed at 4.013% through the use of an interest rate swap between the trustee and a third party financial institution, whereby the third party financial institution pays the trustee the variable rate interest within the swap (which is equivalent to the variable rate within the lease) and the District pays the fixed rate stated by the swap. The trustee has the right to charge any costs associated with the interest rate swap, including costs associated with the termination of the swap, to the District through additional future rentals.

The swap became effective on the date that the District exercised its option to convert the variable interest rate in the lease to a fixed rate. The notional amount of the swap at that exercise date was equivalent to the then outstanding principal balance. The notional amount reduces over the term of the lease by the same amount as the principal payments on the lease, as they fall due. The swap terminates on the same date as the final principal payment is due on the lease.

The interest rate swap in effect as of June 30, 2013 is as follows:

	<u>Effective Date</u>	<u>Termination Date</u>	<u>Notional Amount at June 30, 2013</u>	<u>Settlement Value at June 30, 2013</u>
Fire apparatus	April 24, 2008	January 20, 2018	\$ 465,000	\$ (31,448)

The settlement value of (\$31,448) at June 30, 2013 represents the trustee’s settlement cost that would be paid to the third party financial institution if the swap agreement was to be terminated. The settlement value above is calculated using the zero-coupon rate and is considered by the District to represent the fair value of the interest rate swap at June 30, 2013. The variable rate on the swap is the USD-BMA Municipal Swap Index.

The swap exposes the District to the following risks that could give rise to additional rentals:

*Credit risk:* Credit risk is the risk that the third party financial institution will not fulfill its obligations to pay the variable rate interest. The third party financial institution party to the interest rate swap has a credit quality rating of A. The value of the transaction to the District depends upon the third party financial institution maintaining its perceived creditworthiness in the municipal marketplace and fulfilling its obligation under the interest rate swap agreement. Should the third party financial institution fail to fulfill its obligation, the District will be required to pay additional rentals for any costs associated with terminating the swap agreement.

FERN CREEK FIRE PROTECTION DISTRICT

Notes to the Combined Financial Statements, continued

5. Long-Term Debt, continued

Interest Rate Swap, continued

*Basis risk:* Basis risk is a term used to refer to a mismatch in the source of the variable interest rates in the lease agreement and the swap agreement. When an agency uses an interest rate swap agreement in conjunction with a variable rate debt instrument, the variable rate index used to calculate the payments due under the swap agreement (in this case, the USD-BMA Municipal Swap Index) may not match the rate at which the variable rate debt is remarketed (the interest rate on KACoLT's variable rate bonds, which is reset on a daily basis). This mismatch could potentially be magnified if KACoLT were to administer the program in such a way that the underlying bonds were determined to be taxable obligations, which would be considered an event of default according to the terms of the letter of credit agreement.

*Termination risk:* Termination risk is the risk that a derivative's unscheduled end will affect the District's asset/liability strategy or will present the District with potentially significant unscheduled termination payments to the trustee. For example, the District relies on the interest rate swap to insulate it from the possibility of increasing interest rate payments. If the swap has an unscheduled termination, that benefit would not be available. The District would also be required to pay any costs associated with terminating the swap agreement.

*Market access risk:* Market-access risk is the risk that the District will not be able to enter credit markets or that credit will become more costly. If the District is required to pay additional rentals or be required to pay higher variable rates, additional debt could become more expensive. The District may also be required to pay additional rentals for fees relating to any letters of credit being used to collateralize the interest rate swap. Furthermore, if interest rates in the municipal bond market were to decrease and the District wanted to refinance the debt at a lower interest rate, the District would first have to terminate the swap agreement. When the interest rate swap agreement is terminated prior to the contract's maturity, one party to the agreement will owe the other party a termination payment that reflects the value of the swap under current market conditions. It is likely that if rates have decreased to the extent that the District would want to refinance the debt, the District would be the party that would have to make a termination payment. The use of the interest rate swap agreement may limit the District's flexibility in managing the lease obligation going forward.

Summary

A summary of the District's long-term debt activity is as follows:

	<u>June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
Note payable	\$ 32,000	\$ -	\$ (32,000)	\$ -
Capital lease obligations	<u>1,330,000</u>	<u>590,000</u>	<u>(805,833)</u>	<u>1,114,167</u>
Total long-term debt	<u>\$ 1,362,000</u>	<u>\$ 590,000</u>	<u>\$ (837,833)</u>	<u>\$ 1,114,167</u>

**FERN CREEK FIRE PROTECTION DISTRICT**

Notes to the Combined Financial Statements, continued

**5. Long-Term Debt, continued**

**Summary, continued**

A summary of the District’s long-term debt payments (principal, interest and fees), excluding any additional rentals resulting from the interest rate swap, at June 30, 2013, is as follows:

Fiscal Year	KACoLT Dated April 21, 2008 Interest Rate 4.013%	Kentucky Bond Corporation Dated November 18, 2012 Interest Rate 2.00% - 2.25%	Kentucky Area Development District Dated November 3, 2004 Interest Rate 2.00% - 4.00%	Total
2014	\$ 102,596	\$ 62,481	\$ 127,750	\$ 292,827
2015	104,139	61,306	-	165,445
2016	105,484	60,181	-	165,665
2017	101,712	61,140	-	162,852
2018	102,633	60,801	-	163,434
2019 - 2024	-	299,151	-	299,151
Total	<u>\$ 516,564</u>	<u>\$ 605,060</u>	<u>\$ 127,750</u>	<u>\$ 1,249,374</u>

The present value of the minimum debt service payments on the remaining \$1,114,167 capital lease obligations at June 30, 2013, is summarized as follows:

Minimum debt service payments	\$ 1,249,374
Less interest	<u>(135,207)</u>
Present value, debt service payment	<u>\$ 1,114,167</u>

**6. Retirement Plans**

**Length of Service Retirement Plan**

*Plan Description* - The District has a Length of Service Awards Program (the Plan) administered by the Volunteer Fireman’s Insurance Service (VFIS) that covers substantially all non-salaried volunteer fire fighters. The Plan provides retirement, disability, and death benefits to members and beneficiaries. The benefits are based on years of service. Effective January 1, 2013 the Plan was frozen.

*Funding Policy* - The District’s funding policy is to contribute annually an amount determined by its actuary that adequately provides for the funding of future benefits as determined in accordance with the frozen initial liability cost method that will amortize the Plan’s frozen initial liability over a period of not less than 10 and not more than 30 years.



FERN CREEK FIRE PROTECTION DISTRICT

Notes to the Combined Financial Statements, continued

6. Retirement Plans, continued

Length of Service Retirement Plan, continued

*Annual OPEB Cost and Net OPEB Obligation* - The District's annual other post-employment benefit (OPEB) cost under the plan is calculated based on the annual required contribution (ARC) of the District, which is an amount actuarially determined by VFIS. 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 over a period not to exceed thirty years.

The District's annual required contribution and net OPEB asset for the Plan for the year ended June 30, 2013 were as follows:

Annual required contribution	\$ 115,213
Contributions made	<u>150,000</u>
Increase in net OPEB asset	(34,787)
Net OPEB asset, beginning of year	<u>(75,603)</u>
Net OPEB asset, end of year	\$ <u>(110,390)</u>

The required annual contribution for the current year was determined as a part of the March 31, 2012 actuarial valuation. The actuarial assumptions included a 3.75% investment rate of return.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2013	\$ 115,213	100%	\$ (110,390)
June 30, 2012	122,514	100%	(75,603)
June 30, 2011	95,000	100%	(48,107)

*Funding Status and Funding Progress* - The projected benefit obligation in excess of plan assets to be paid in the future totaled \$1,133,700 at June 30, 2013. The District has mortgaged real estate known as Fire Station #1 to VFIS to secure this projected obligation. Subsequent to the year end, the District received a commitment from a bank to provide a loan in the amount of \$750,000, secured by certain property of the District, with interest fixed at 3.49% for the five year term of the agreement. The loan proceeds will be used to finance the buy-out of the Plan through the purchasing of annuities for the participants.

## FERN CREEK FIRE PROTECTION DISTRICT

Notes to the Combined Financial Statements, continued

### 6. Retirement Plans, continued

#### Length of Service Retirement Plan, continued

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District 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 combined financial statements, presents multi-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.

*Methods and Assumptions* - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to that point. The 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.

#### CERS Plan

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.00% of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6.00% of their salary to the plan. The District's contribution rate for nonhazardous employees was 19.55%, 18.96%, and 16.93% for the years ended June 30, 2013, 2012, and 2011, respectively.

Hazardous covered employees are required to contribute 8.00% of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9.00% of their salary to be allocated as follows: 8.00% will go to the member's account and 1.00% will go to the Kentucky Retirement Systems insurance fund. The District's contribution rate for hazardous employees was 37.60%, 35.76%, and 33.25% for the years ended June 30, 2013, 2012, and 2011, respectively.

The District's contributions to CERS for the years ended June 30, 2013, 2012, and 2011 amounted to \$335,105, \$308,631, and \$260,875, respectively.

## FERN CREEK FIRE PROTECTION DISTRICT

### Notes to the Combined Financial Statements, continued

#### 6. Retirement Plans, continued

##### CERS, continued

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 696-8800.

##### Deferred Compensation Plans

The District's employees may elect to participate in two deferred compensation plans offered by the Kentucky Public Employees Deferred Compensation Authority under sections 401(k) and 457 of the Internal Revenue Code. Under the plans, employees may defer up to 100% of their compensation after deducting required contributions to the CERS plan. The District does not make matching contributions to these plans.

FERN CREEK FIRE PROTECTION DISTRICT

Notes to the Combined Financial Statements, continued

7. District Revenue Profile

An eight year summary of the District’s assessed property and revenue collected is as follows:

Fiscal Year	Tax Rate	Real Estate Assessed Valuation	Motor Vehicle Assessed Valuation	Boat Assessed Valuation	Tax Revenue Budgeted	Tax Revenue Collected	Tax Collection Percentage
2005 - 2006	0.10	\$ 1,771,572,943	\$ 174,560,876	\$ 4,474,346	\$ 2,025,000	\$ 2,003,968	0.99
2006 - 2007	0.10	1,999,001,065	186,137,961	4,481,158	2,157,000	2,212,634	1.03
2007 - 2008	0.10	2,131,988,395	190,488,112	4,385,852	2,245,000	2,370,781	1.06
2008 - 2009	0.10	2,241,547,165	203,589,580	4,588,492	2,405,000	2,413,003	1.00
2009 - 2010	0.10	2,306,129,395	182,836,413	4,635,895	2,505,000	2,502,645	1.00
2010 - 2011	0.10	2,333,066,495	194,233,773	4,874,482	2,575,000	2,570,046	1.00
2011 - 2012	0.10	2,343,155,345	203,354,423	4,641,651	2,621,000	2,584,267	0.99
2012 - 2013	0.10	2,360,721,217	216,147,725	4,620,529	2,621,000	2,621,898	1.00

Fiscal Year	Real Estate Assessed Valuation	Number of Taxpayer Accounts	Average Assessment
2005 - 2006	\$ 1,771,572,943	12,314	\$ 143,867
2006 - 2007	1,999,001,065	12,952	154,339
2007 - 2008	2,131,988,395	13,306	160,228
2008 - 2009	2,241,547,165	13,660	164,096
2009 - 2010	2,306,129,395	13,788	167,256
2010 - 2011	2,333,066,495	13,786	169,234
2011 - 2012	2,343,155,345	13,909	168,463
2012 - 2013	2,360,721,217	13,935	169,409

8. Fire Training Academy

During 2002, the District, along with three other suburban fire districts, signed a Construction/Permanent Loan Note (the original note) with a local bank as equal borrowers to borrow up to \$620,000. The District, as an equal co-borrower, was responsible for 25% of the outstanding balance of the original note but was jointly and severally liable on the balance of the original note. The original note was secured by real estate with a cost basis of approximately \$570,000. As draws were made on the original note, the above noted Districts lent the proceeds to the Jefferson County Fire Training Academy (the Academy) to construct a new training facility. A total of \$618,268 was drawn on the original note and financed by the Districts. In November 2003, the original note was converted into a “permanent” note at a fixed rate of 4.55% for 72 months.

## FERN CREEK FIRE PROTECTION DISTRICT

### Notes to the Combined Financial Statements, continued

#### 8. Fire Training Academy, continued

On November 25, 2009, the District, along with eight other suburban fire districts, obtained a loan (the "new note") in the amount of \$463,268 for the purpose of refinancing the balance owed on the original note. The new note bears interest at a fixed rate of 4.27% and matures on November 25, 2014. These rates and terms are the same for the receivable due from the Academy. The District, as an equal co-borrower, is responsible for 11.11% of the outstanding balance of the new note but is jointly and severally liable on the balance of the new note. The new note is also secured by the real estate owned by the Academy with a cost basis of approximately \$570,000. The District has recorded a note payable in the amount of \$43,622 plus accrued interest of \$878 as of June 30, 2013. A like amount has been recorded by the District as a receivable from the Academy as of June 30, 2013.

Each District will pay fees to the Academy to utilize the facilities for fire training for their respective employees. In addition, the facility is available for use for a fee by other Metro Louisville area fire protection districts. The fees are intended to cover operating expenses and debt retirement of the Academy. Management evaluated the District's exposure to loss at June 30, 2013, and no accrual for loss was deemed necessary.

**SUPPLEMENTARY INFORMATION**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Funding Progress for the**  
**Length of Service Retirement Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)
06/30/2013	\$ 673,877	\$ 1,807,577	\$ 1,133,700	37.3%
03/31/2012	360,127	1,211,915	851,788	29.7%
03/31/2011	277,773	965,907	688,134	28.8%

DEAN || DORTON || ALLEN || FORD  
PLLC**Report of Independent Auditors 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 Trustees  
 Fern Creek Fire Protection District and  
 Fern Creek Fire Protection District  
 Holding Company, Inc.  
 Louisville, Kentucky

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 combined financial statements of the governmental activities and each major fund of the Fern Creek Fire Protection District and the Fern Creek Fire Protection District Holding Company, Inc. (collectively the District), as of and for the year ended June 30, 2013, and the related notes to the combined financial statements, which collectively comprise the District's basic combined financial statements, and have issued our report thereon dated September 17, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the combined financial statements, we considered the 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combined 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.



Board of Trustees  
Fern Creek Fire Protection District and  
Fern Creek Fire Protection District  
Holding Company, Inc.  
Louisville, Kentucky

Report of Independent Auditors on Internal Control and on Compliance and Other Matters, continued

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's combined 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.

*Dean Dotson Allen Ford, PLLC*

September 17, 2013  
Louisville, Kentucky