Fern Creek Fire Protection District and Fern Creek Fire Protection District Holding Company, Inc.

COMBINED FINANCIAL STATEMENTS

JUNE 30, 2010

Fern Creek Fire Protection District and Fern Creek Fire Protection District Holding Company, Inc.

TABLE OF CONTENTS

Independent Auditor's Report

October 1, 2010

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

We have audited the accompanying combined financial statements of the governmental activities and each major fund of the Fern Creek Fire Protection District and Fern Creek Fire Protection District Holding Company, Inc. (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's combined basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2010, on our consideration of the District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis on pages 3 and 4 and the schedule of funding progress for the Length of Service Retirement Plan Program on page 23 are not a required part of the combined basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cotton and Allen, P.S.C.

Cotton and Allen, P.S.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2010

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. (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, 2010. The District's operations for the year ended June 30, 2010 resulted in an increase in the District's net assets of $159,903 and resulted in net assets of $5,047,020 at June 30, 2010. 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 $4,068,022 as of June 30, 2010. Depreciation expense for the year ended June 30, 2010 was $374,304.

Total expenditures for all governmental funds was $2,609,671, which was $48,109 less than the total revenues of $2,657,780 for the year ended June 30, 2010.

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. The lease also financed the cost to replace the District's self-contained breathing apparatus (SCBA). The original lease amount was $850,000. The new fire engine was delivered in April, 2009 at a cost of $456,640, with an additional $58,212 expended for the firefighting equipment. This engine is being used by the 24-hour duty crew that currently responds to medical responses for Louisville Metro EMS in Fern Creek. The fire engine they previously used was delivered in May, 1999, and yet it had the highest mileage (over 103,000) of all the District's apparatus. A substantial amount of this mileage was for medical responses. That engine has been refurbished at a cost of $113,586 by the manufacturer and its useful life should now be extended at least another 15 years. Under Federal regulations, the life of the District's SCBA air bottles expired in June 2008. The District had been unsuccessful in obtaining Federal grant funding over the past six years to replace its SCBAs, and had to purchase new ones at a cost of nearly $300,000. The new SCBAs were acquired in July 2008. Through the efforts of Chief Mike Schmidt, the District was awarded a Federal grant of $99,000 in 2009 to reimburse the District for a portion of the SCBA purchase cost.

In Note 4 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 apparatus lease (obtained through the Kentucky Association of Counties Leasing Trust). The rate is currently fixed at 4.10%. 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 financial statements would not be material.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Reporting the District as a Whole

There was an increase of $40,739 in cash and cash equivalents and investments, from $1,679,110 at June 30, 2009 to $1,719,849 at June 30, 2010. 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 2010 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 exceeded the amount budgeted by $5,135 and the total expenditures were $52,792 less than the amounts budgeted. The expenditures that exceeded the budgeted amounts were due primarily to equipment purchases, building repairs and payroll. The majority of expenditures were less than the amounts budgeted for the fourth 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 year ended June 30, 2010 the District responded to 857 requests for assistance, of which 348 of those responses were to assist Louisville Metro EMS. Our responses to assist EMS increased by 125 runs from the 223 runs that were made in the prior year, even though our response level was reduced to only life threatening situations such as patients having difficulty breathing. This is a 56% increase over the prior year. Responses to assist EMS were 41% of the District's run volume during the current year. Although the District is experiencing a substantial increase in operating costs for medical responses to assist Louisville Metro EMS, it does not 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 paid firefighters. In order to recover some of the operating expenses, the District charges a fee for responses to vehicle fires and accidents when the vehicles' owners do not live in the District.

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

COMBINED STATEMENT OF NET ASSETS

JUNE 30, 2010

		Governmental Activity
ASSETS		
Cash and cash equivalents (Note 2)	$	782,617
Accounts receivable, property taxes, and other		33,508
Receivable from training academy (Note 7)		52,767
Investments (Note 2)		937,232
Capital assets, net of depreciation (Note 3)		5,092,538
Land (Note 3)		191,141
Bond call premium, net of amortization (Note 4)		5,816
Lease origination costs, net of amortization (Note 4)		5,759
TOTAL ASSETS		7,101,378
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable		8,097
Accrued wages and benefits		119,494
Note payable, Fire Training Academy (Note 7)		52,767
Capital lease obligations (Notes 3 and 4)		
Portion due within one year		220,000
Portion due after one year		1,560,000
Note payable (Note 4)		
Portion due within one year		29,000
Portion due after one year		65,000
Total Liabilities		2,054,358
NET ASSETS		
Investment in capital assets, net of related debt		3,409,679
Unrestricted		1,637,341
Total Net Assets		5,047,020
TOTAL LIABILITIES AND NET ASSETS	$	7,101,378

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010

	Governmental Activity
EXPENSES	
Salaries, wages, and benefits	$ 1,585,038
Operating expenses	329,340
Repairs and maintenance expense	117,277
Interest expense	89,615
Depreciation and amortization expense	376,607
Total Expenses	2,497,877
GENERAL REVENUES	
Property taxes	2,502,645
State aid incentives, and other	133,484
Interest earnings	21,651
Total General Revenues	2,657,780
CHANGE IN NET ASSETS	159,903
NET ASSETS, BEGINNING OF YEAR	4,887,117
NET ASSETS, END OF YEAR	$ 5,047,020

COMBINED FUND FINANCIAL STATEMENTS

COMBINED BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2010

		General Fund		Debt Service Fund		Total Governmental Funds
ASSETS						
Cash and cash equivalents (Note 2)	$	521,230	$	261,387	$	782,617
Accounts receivable, property taxes, and other		33,508				33,508
Investments (Note 2)		901,349		35,883		937,232
TOTAL ASSETS		1,456,087		297,270		1,753,357
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable		8,097				8,097
Accrued wages and benefits		119,494				119,494
Total Liabilities		127,591		0		127,591
FUND BALANCES						
Unreserved		1,328,496				1,328,496
Reserved for:						
Debt service				297,270		297,270
Total Fund Balances		1,328,496		297,270		1,625,766
TOTAL LIABILITIES AND FUND BALANCES	$	1,456,087	$	297,270	$	1,753,357

RECONCILIATION OF THE COMBINED BALANCE SHEET – GOVERNMENTAL FUNDS TO THE COMBINED STATEMENT OF NET ASSETS

Total fund balances for governmental funds	$ 1,625,766
Total net assets reported for governmental activities in the statement of net assets is different because:	
Capital assets net of depreciation, used in governmental activities are not financial resources, and therefore, not reported in the general fund.	5,283,679
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 assets.	(1,874,000)
Lease origination costs are expensed and not reported as an asset under the Commission's governmental activities. Origination costs are capitalized on the statement of net assets, net of accumulated amortization of $13,160 at June 30, 2010.	5,759
Bond call premium related to advance refunding of the District's previously issued 1st Mortgage Refunding Revenue Bonds is reported as an other financing use under the District's governmental activities. Bond call premium is reported as an asset on the statement of net assets and accreted over the term of the lease obligation through interest expense.	5,816
Total Net Assets of Governmental Activities	$ 5,047,020

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2010

	Total Budget	Actual: General Fund	Actual: Debt Service Fund	Actual: Total Governmental Funds	Over (Under) Budget
REVENUES					
Property taxes	$ 2,505,000	$ 2,502,645	$	$ 2,502,645	$ (2,355)
State aid incentives, and other	127,645	133,484		133,484	5,839
Interest earnings	20,000	21,651		21,651	1,651
Total Revenues	2,652,645	2,657,780	0	2,657,780	5,135
EXPENDITURES					
Property and equipment additions					
Land and buildings	12,500	6,885		6,885	(5,615)
Vehicles and fire fighting equipment	151,000	187,062		187,062	36,062
Communications and other equipment	74,540	47,781		47,781	(26,759)
Personnel operating expenses	19,800	18,568		18,568	(1,232)
Administrative expenses					
Insurance	54,000	53,339		53,339	(661)
Retirement costs	380,410	373,323		373,323	(7,087)
Legal and accounting	22,200	17,962		17,962	(4,238)
Fire prevention	20,000	10,258		10,258	(9,742)
Treasurer's expenses	1,000	454		454	(546)
Wages, payroll taxes, and insurance	1,203,275	1,211,715		1,211,715	8,440
Health and safety programs	27,000	19,805		19,805	(7,195)
Other supplies and miscellaneous	12,500	9,580		9,580	(2,920)
Operating expenses					
Utilities	95,000	91,393		91,393	(3,607)
Gasoline and oil	50,000	41,441		41,441	(8,559)
Fire school, fire fighting, and training supplies	23,000	20,499		20,499	(2,501)
Other supplies and miscellaneous	39,850	36,041		36,041	(3,809)
Training Academy	10,000	10,000		10,000	
Repairs and maintenance expenses					
Vehicles	40,000	28,627		28,627	(11,373)
Buildings	57,600	64,514		64,514	6,914
Communication equipment	9,500	5,239		5,239	(4,261)
Fire fighting equipment	16,000	11,059		11,059	(4,941)
Personnel equipment	7,000	7,838		7,838	838
Debt service					
Principal payments	249,000		249,000	249,000	
Interest payments	87,288		87,288	87,288	
Total Expenditures	2,662,463	2,273,383	336,288	2,609,671	(52,792)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE TRANSFERS AND FINANCING SOURCES (USES)	(9,818)	384,397	(336,288)	48,109	57,927
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	177,230		332,714	332,714	155,484
Transfer to other funds	(167,412)	(332,714)		(332,714)	(165,302)
Total Other Financing Source (Uses)	9,818	(332,714)	332,714	0	(9,818)
NET CHANGES IN FUND BALANCES	$ 0	51,683	(3,574)	48,109	$ 48,109
FUND BALANCES, BEGINNING OF YEAR		1,276,813	300,844	1,577,657	
FUND BALANCES, END OF YEAR		$ 1,328,496	$ 297,270	$ 1,625,766	

See Notes to Combined Financial Statements

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	$ 48,109
The change in net assets 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 ($374,304) exceeded capital outlays ($241,728) in the current period.	(132,576)
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 assets, these obligations are reported as a liability. Therefore, principal payments on these obligations are not considered an expense in the statement of activities.	249,000
Governmental funds financial statements report 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.	(2,303)
Bond call premium is reflected on the statement of net assets and amortized over the term of the corresponding lease obligation. They are not reflected on the fund financial statements. Amortization of the call premium increased interest expense by $2,327.	(2,327)
Change in Net Assets of Governmental Activities	$ 159,903

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. (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.

Management's 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 the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Combined Government-Wide Financial Statements

In accordance with the Government Accounting Standards Board ("GASB"), the District has presented a combined statement of net assets 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:

Application of Financial Accounting Standards Board Statements and Interpretations – Reporting on governmental-type activities are based on Financial Accounting Standards Board ("FASB") Statements and Interpretations issued before November 30, 1989, except where they conflict or contradict GASB pronouncements.

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 statement of net assets.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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. The District does not have any business-type activities.

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 accounting principles generally accepted in the United States of America.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 which approximates fair value.

Capital Assets

Capital assets, including land, buildings, improvements, and equipment, are reported in the governmental activity column in the 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.

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 - 15 years
Major fire fighting apparatus	25 years
Vehicles	10 years
Equipment	5 - 15 years

Net Assets/Fund Balances

In the combined statement of net assets, the difference between the District's assets and liabilities is recorded as net assets. The three components of net assets 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 Assets – Net assets that are restricted by external sources such as banks or by law are reported separately as restricted net assets. When assets are required to be retained in perpetuity, these non-expendable net assets are recorded separately from expendable net assets. These are components of restricted net assets. The District has no restricted net assets.

Unrestricted Net Assets – This category represents net assets not appropriated for expenditures or legally segregated for a specific future use.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets/Fund Balances (Continued)

In the combined balance sheet of governmental funds, fund balances are segregated as follows:

> ***Reserved*** – These resources are segregated because their use is earmarked for a specific use. The District has reserved specific funds for future debt service.
>
> ***Unreserved*** – This category represents that portion of equity not appropriated for expenditures or legally segregated for a specific future use.

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 government-wide statement of net assets, 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.

Pending Adoption of Accounting Standard

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This standard establishes fund balance classifications that comprise a hierarchy based on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The District will be required to adopt this standard in its 2011 financial statements. The District is currently assessing the impact of this standard on its combined financial position, major funds, and changes in financial position and has not yet determined if the adoption will have a material effect on its combined financial statements.

NOTE 2. 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. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

Custodial Credit Risk – Deposits. 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, 2010, all deposits were covered by FDIC insurance or a properly executed security agreement.

Investments

At June 30, 2010, the District's investment balances were as follows:

	Maturity	Amortized Cost	Fair Value
Certificates of deposit			
Interest rate of 1.25%	August 2010	$ 150,000	$ 150,000
Interest rate of 1.49%	August 2010	250,000	250,000
Interest rate of 1.64%	December 2010	251,349	251,349
Interest rate of 2.40%	February 2011	250,000	250,000
Interest rate of 2.25%	February 2011	35,883	35,883
		$ 937,232	$ 937,232

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, 2010, all investments were covered by FDIC insurance or a properly executed collateral security agreement.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land and buildings	$ 4,103,474	$ 6,885	$	$ 4,110,359
Vehicles and fire fighting equipment	3,975,958	187,062	(48,303)	4,114,717
Communications and other equipment	1,078,844	47,781		1,126,625
Total Cost	9,158,276	241,728	(48,303)	9,351,701
Less accumulated depreciation				
Buildings	(1,310,696)	(80,595)		(1,391,291)
Vehicles and fire fighting equipment	(1,801,991)	(152,703)	48,303	(1,906,391)
Communications and other equipment	(629,334)	(141,006)		(770,340)
Total Accumulated Depreciation	(3,742,021)	(374,304)	48,303	(4,068,022)
Net Book Value	$ 5,416,255	$ (132,576)	$ 0	$ 5,283,679

The net book value of capital assets financed through capital leases was $1,387,387 at June 30, 2010.

NOTE 4. LONG-TERM DEBT

Capital Lease Obligations

The District finances certain buildings and firefighting equipment acquisitions under capital lease agreements expiring through 2023. The assets and liabilities on the capital lease are recorded at the lower of the present value of the minimum lease payments or 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.

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 4.103% 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.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4. LONG-TERM DEBT (CONTINUED)

Interest Rate Swap (Continued)

The swap becomes effective on the date that the District exercises 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 is 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, 2010 is as follows:

	Effective Date	Termination Date	Notional Amount at June 30, 2010	Settlement Value at June 30, 2010
Fire apparatus	April 24, 2008	January 20, 2018	$ 705,000	$ (42,214)

The settlement value of ($42,214) at June 30, 2010 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, 2010. 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.

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.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4. LONG-TERM DEBT (CONTINUED)

Interest Rate Swap (Continued)

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 activity is as follows:

	June 30, 2009	Increases	Decreases	June 30, 2010
Long-Term Debt				
Note payable	$ 123,000	$	$ (29,000)	$ 94,000
Capital lease obligations	2,000,000		(220,000)	1,780,000
Total Long-Term Debt	$ 2,123,000	$ 0	$ (249,000)	$ 1,874,000

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, 2010, is as follows:

	Note Payable	Capital Lease Obligations			
Fiscal Year	FmHA Mortgage Note Dated March 20, 1985 Interest Rate 5.0%	Kentucky Association of Counties Dated April 21, 2008 Interest Rate 4.103%	Kentucky Area Development District Dated December 1, 2002 Interest Rate 2.50% - 5.25%	Kentucky Area Development District Dated November 3, 2004 Interest Rate 2.00% - 4.00%	Total
2011	$ 35,700	$ 102,288	$ 64,763	$ 126,760	$ 329,511
2012	34,150	104,230	63,363	127,485	329,228
2013	33,600	105,971	61,788	127,900	329,259
2014		102,596	65,100	127,750	295,446
2015		104,139	63,200		167,339
2016-2020		309,829	326,369		636,198
2021-2023			190,294		190,294
Total	$ 103,450	$ 829,053	$ 834,877	$ 509,895	$ 2,277,275

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4. LONG-TERM DEBT (CONTINUED)

Summary (Continued)

The present value of the minimum debt service payments on the remaining $1,874,000 capital lease obligations and note payable is summarized as follows:

June 30,	2010
Minimum debt service payments	$ 2,277,275
Less interest	(403,275)
Present Value, Debt Service Payment	$ 1,874,000

As a result of debt refinancing in prior years, the District is amortizing a bond call premium and lease origination costs on the straight-line basis over the life of the corresponding debt.

NOTE 5. 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.

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.

Annual OPEB Cost and Net OPEB Obligation - The District's annual other postemployment 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 obligation to the Plan for the year ended June 30, 2010 were as follows:

Annual Required Contribution	$ 107,648
Contributions made	107,648
Increase in Net OPEB Obligation	0
Net OPEB Obligation, beginning of year	
Net OPEB Obligation, End of Year	$ 0

The required annual contribution for the current year was determined as a part of the March 31, 2010 actuarial valuation. The actuarial assumptions included a 5% investment rate of return.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5. RETIREMENT PLANS (CONTINUED)

Length of Service Retirement Plan (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 107,648	100%	$ 0
June 30, 2009	61,141	100%	
June 30, 2008	65,266	100%	

Funding Status and Funding Progress - The projected benefit obligation in excess of plan assets to be paid in the future totaled $726,389 at March 31, 2010. The District has mortgaged real estate known as Fire Station #1 to VFIS to secure this projected obligation.

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 16.16%, 13.50%, and 16.17% for the years ended June 30, 2010, 2009, and 2008, respectively.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5. RETIREMENT PLANS (CONTINUED)

CERS Plan (Continued)

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 32.97%, 29.50%, and 33.87% for the years ended June 30, 2010, 2009, and 2008, respectively.

The District's contributions to CERS for the years ended June 30, 2010, 2009, and 2008 amounted to $260,875, $226,121, and $229,367, respectively.

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 met 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) 564-4646

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.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6. 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
2002 - 2003	0.10	$ 1,392,275,128	$ 151,764,971	$ 4,213,693	$ 1,555,000	$ 1,599,084	1.03
2003 - 2004	0.10	1,511,041,133	153,171,078	4,065,538	1,670,000	1,723,774	1.03
2004 - 2005	0.10	1,619,635,133	157,396,886	4,247,834	1,865,000	1,815,276	0.97
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

Fiscal Year	Real Estate Assessed Valuation	Number of Taxpayer Accounts	Average Assessment
2002 - 2003	$ 1,392,275,128	11,082	$ 125,634
2003 - 2004	1,511,041,133	11,384	132,734
2004 - 2005	1,619,635,133	12,029	134,644
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

NOTE 7. 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.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7. 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 $51,472 plus accrued interest of $1,295 as of June 30, 2010. A like amount has been recorded by the District as a receivable from the Academy as of June 30, 2010.

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, 2010, 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)
03/31/2010	$ 308,060	$ 1,034,449	$ 726,389	29.8%
03/31/2009	283,487	1,019,357	735,870	27.8%
03/31/2008	243,441	687,998	444,557	35.4%

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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*

October 1, 2010

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

We have audited the combined financial statements of Fern Creek Fire Protection District and Fern Creek Fire Protection District Holding Company, Inc. (the "District") as of and for the year ended June 30, 2010 and have issued our report thereon dated October 1, 2010. 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.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's combined financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Trustees, management, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than those specified parties.

Cotton and Allen, P.S.C.

Cotton and Allen, P.S.C.