FERN CREEK FIRE PROTECTION DISTRICT

COMBINED FINANCIAL REPORT

June 30, 2014

CONTENTS

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the 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., (the "District") as of and for the year ended June 30, 2014, and the related notes to the combined financial statements, which collectively comprise the District's basic financial statements.

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 an opinion 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.

Certified Public Accountants and Advisors

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

Opinion

In our opinion, the 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, 2014, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2014, 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 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* in considering the District's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
October 9, 2014

FERN CREEK FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

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, 2014. The District's operations for the year ended June 30, 2014 resulted in a decrease in the District's net assets of $633,925 and resulted in net assets of $4,925,779 at June 30, 2014. 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 $5,370,329 as of June 30, 2014. Depreciation expense for the year ended June 30, 2014 was $328,533.

Total expenditures for all governmental funds were $4,020,145, which was $548,446 more than the total revenues of $3,471,699 for the year ended June 30, 2014.

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 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 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 $326,588 in cash and cash equivalents and investments, from $2,095,828 at June 30, 2013 to $2,422,416 at June 30, 2014. 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 2014 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 General, Debt and Post-Employment Retirement Fund revenues for the fiscal year were less than the amount budgeted by $683,225 and the total expenditures were $81,879 less than the amounts budgeted. The majority of expenditures were less than the amounts budgeted for the eighth 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. The District has frozen the defined benefit volunteer firefighter pension, and now offers a defined contribution plan. The District purchases annuities to provide for the future benefits earned under the plan. During the year the District offered a buyout to the firefighters for whom an annuity had not been purchased. The buyout resulted in a deficit of $700,914 in the Plan Fund for the year. The deficit had been projected and a loan of $750,000 had been secured prior to paying the buyouts to provide the needed funds.

During the year ended June 30, 2014 the District responded to 977 requests for assistance, of which 201 of those responses were to assist Louisville Metro EMS. Our responses to assist EMS were down from the 336 runs that were made in the prior year, because the District has reduced its response level to only to life threatening situations such as patients having difficulty breathing. Responses to assist EMS were 21% of the District's run volume during the current year, compared to 39% and 35% for fiscal years 2012 and 2013, respectively. 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 $900,000 per year. At that rate it would cost the District $2,700,000 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 increased from 57 to 59. 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 2013, the volunteer firefighters served 12,105 hours staffing the stations during their volunteer shifts. They volunteered another 2,802 hours responding to calls for fires, rescues, etc. In addition, the volunteers spent 5,213 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 $767,737.

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, 2013 was only 5:26 minutes. 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.

FERN CREEK FIRE PROTECTION DISTRICT

COMBINED STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activity
ASSETS	
Current assets:	
Cash	$ 1,626,526
Accounts receivable, property taxes, and other	24,843
Receivable from training academy (Note 7)	40,772
Investments - short term (Note 2)	545,890
Total current assets	$ 2,238,031
Non-current assets:	
Investments (Note 2)	$ 250,000
Capital assets, net of depreciation (Note 3)	4,160,941
Land (Note 3)	191,141
Total non-current assets	$ 4,602,082
Total assets	$ 6,840,113
LIABILITIES	
Current liabilities:	
Current maturities of long-term debt (Note 4)	$ 26,389
Current portion of capital leases (Note 4)	140,000
Accounts payable	29,742
Benefits payable (Note 5)	110,669
Accrued wages and benefits	150,237
Note payable, Fire Training Academy (Note 7)	40,772
Total current liabilities	$ 497,809
Non-current liabilities:	
Long-term debt, less current maturities (Note 4)	$ 702,358
Capital leases, less current portion (Note 4)	714,167
Total non-current liabilities	$ 1,416,525
Total liabilities	$ 1,914,334
NET POSITION	
Net investment in capital assets	$ 3,497,911
Unrestricted	1,427,868
Total net position	$ 4,925,779

The Notes to Combined Financial Statements are an integral part of this statement.

FERN CREEK FIRE PROTECTION DISTRICT

COMBINED STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

	Governmental Activity
EXPENSES	
Salaries, wages, and benefits	$ 3,235,366
Operating expenses	369,130
Repairs and maintenance expense	116,430
Interest expense	56,165
Depreciation expense (Note 3)	328,533
Total expenses	$ 4,105,624
GENERAL REVENUES	
Property taxes (Note 6)	$ 2,646,408
State aid incentives and other (Note 5)	817,909
Interest earnings	7,382
Total general revenues	$ 3,471,699
Change in net position	$ (633,925)
Net position, beginning of year	5,559,704
Net position, end of year	$ 4,925,779

The Notes to Combined Financial Statements are an integral part of this statement.

FERN CREEK FIRE PROTECTION DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2014

		Actual				
	Total Budget	General Fund	Debt Service Fund	Post-Employment Retirement Fund	Total Governmental Funds	Over (Under) Budget
REVENUES						
Property taxes	$ 2,645,000	$ 2,646,408	$ --	$ --	$ 2,646,408	$ 1,408
State aid incentives and other	1,499,924	111,935	--	705,974	817,909	(682,015)
Interest earnings	10,000	7,382	--	--	7,382	(2,618)
Total revenues	$ 4,154,924	$ 2,765,725	$ --	$ 705,974	$ 3,471,699	$ (683,225)
EXPENDITURES						
Property and equipment additions						
Land and buildings	$ 17,400	$ 31,677	$ --	$ --	$ 31,677	$ 14,277
Vehicles and fire fighting equipment	60,500	40,337	--	--	40,337	(20,163)
Communication and other equipment	7,200	--	--	--	--	(7,200)
Personnel operating expenses	23,700	23,130	--	--	23,130	(570)
Administrative expenses:						
Insurance	44,656	43,992	--	--	43,992	(664)
Retirement costs	371,863	378,564	--	--	378,564	6,701
Legal and accounting	25,000	24,995	--	--	24,995	(5)
Fire prevention	24,219	5,622	--	--	5,622	(18,597)
Treasurer's expenses	500	512	--	--	512	12
Wages, payroll taxes, and insurance	1,359,822	1,339,524	--	--	1,339,524	(20,298)
Health and safety programs	31,785	22,720	--	--	22,720	(9,065)
Other supplies and miscellaneous	11,000	10,373	--	--	10,373	(627)
Operating expenses:						
Utilities	100,000	110,081	--	--	110,081	10,081
Gasoline and oil	45,000	53,066	--	--	53,066	8,066
Fire school, fire fighting, and training supplies	22,900	23,644	--	--	23,644	744
Other supplies and miscellaneous	36,300	38,172	--	--	38,172	1,872
Training academy	10,000	10,000	--	--	10,000	--
Repairs and maintenance expenses:						
Vehicles	53,800	47,682	--	--	47,682	(6,118)
Buildings	48,800	43,522	--	--	43,522	(5,278)
Communication equipment	3,500	163	--	--	163	(3,337)
Fire fighting equipment	22,700	16,814	--	--	16,814	(5,886)
Personnel equipment	500	8,249	--	--	8,249	7,749
Debt service:						
Principal payments	281,253	--	281,253	--	281,253	--
Interest payments	56,526	--	56,165	--	56,165	(361)
Other debt service	3,000	--	3,000	--	3,000	--
Post employment expenses:						
Post-employment retirement payments	1,440,100	--	--	1,406,888	1,406,888	(33,212)
Total expenditures	$ 4,102,024	$ 2,272,839	$ 340,418	$ 1,406,888	$ 4,020,145	$ (81,879)
Excess (deficiency) of revenues over expenditures	$ 52,900	$ 492,886	$ (340,418)	$ (700,914)	$ (548,446)	$ (601,346)
Other financing sources (uses)						
Issuance of debt	$ --	$ --	$ 750,000	$ --	$ 750,000	$ 750,000
Transfers from other funds	--	--	300,265	750,000	1,050,265	1,050,265
Transfers to other funds	(52,900)	(300,265)	(750,000)	--	(1,050,265)	(997,365)
Total other financing sources (uses)	$ (52,900)	$ (300,265)	$ 300,265	$ 750,000	$ 750,000	$ 802,900
Net change in fund balances	$ --	192,621	(40,153)	49,086	201,554	$ 201,554
Fund balances, beginning of year		1,670,367	284,690	--	1,955,057	
Fund balances, end of year		$ 1,862,988	$ 244,537	$ 49,086	$ 2,156,611	

The Notes to Financial Statements are an integral part of this statement.

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

June 30, 2014

Net change in fund balances - total government funds	$	201,554
Total net position reported for governmental activities in the 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 ($328,533) exceeded capital outlays ($72,014) in the current period.		(256,519)
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.		260,000
Issuance of debt provides current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		(750,000)
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.		(110,390)
Buy-out of the length of service retirement plan was financed through a note payable. In governmental funds, this type of financing is a source and use of financing, but in the combined statement of net position, this obligation is reported as a liability. Therefore, principal payments on these obligations are not considered an expenses in the statement of activities.		21,430
Change in net position of governmental activities	$	(633,925)

The Notes to Combined Financial Statements are an integral part of these statements.

FERN CREEK FIRE PROTECTION DISTRICT
NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of Operations

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.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Combined Government-Wide Financial Statements

In accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (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 statements of net position.

Note 1. 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.

Post-Employment Retirement Fund – This fund accounts for the resources accumulated and payments made to current and former volunteer firefighters previously included in the Length of Service Retirement Plan (See Note 5).

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.

Note 1. Significant Accounting Policies (Continued)

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 the Commonwealth of Kentucky law. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

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 market 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 to 25 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. Three components of net position are as follows:

Net Investment in Capital Assets – 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 as of June 30, 2014.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Net Position/Fund Balances (continued)

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 legally or contractually required to be maintained intact. The District's nonspendable funds consisted of prepaid expenses as of June 30, 2014.

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, 2014.

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 committed funds for the length of service program buyout as of June 30, 2014 (See Note 5).

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, 2014.

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 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 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.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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.

Subsequent Events

Management has evaluated subsequent events through October 9, 2014, the date the financial statements were available to be issued.

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.

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, 2014, all deposits were covered by FDIC insurance or a properly executed security agreement.

Investments

As of June 30, 2014, the District's investment balances were as follows:

	Maturity	Amortized Cost	Fair Value
Certificates of deposit:			
Interest rate of 0.50%	November 2014	$ 250,421	$ 250,421
Interest rate of 0.55%	August 2015	250,000	250,000
Interest rate of 0.35%	February 2015	45,469	45,469
Interest rate of 0.70%	February 2015	250,000	250,000
		$ 795,890	$ 795,890

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.

Note 2. Deposits and Investments (Continued)

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 obligation. 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, 2014, all investments were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land and buildings	$ 4,303,399	$ 22,105	$ --	$ 4,325,504
Vehicles and fire fighting equipment	4,288,812	40,337	(22,460)	4,306,689
Communications and other equipment	1,088,542	9,572	(7,911)	1,090,203
Total cost	$ 9,680,753	$ 72,014	$ (30,371)	$ 9,722,396
Less accumulated depreciation for:				
Buildings	$(1,646,741)	$ (88,365)	$ --	$(1,735,106)
Vehicles and fire fighting equipment	(2,498,530)	(188,074)	22,460	(2,664,144)
Communications and other equipment	(926,881)	(52,094)	7,911	(971,064)
Total accumulated	$(5,072,152)	$ (328,533)	$ 30,371	$(5,370,314)
Net book value	$ 4,608,601	$ (256,519)	$ --	$ 4,352,082

The net book value of capital assets financed through capital leases was $1,054,330 at June 30, 2014.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4. Long-Tern 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.

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 exercised 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, 2014 is as follows:

	Effective Date	Termination Date	Notional Amount at June 30, 2014	Settlement Value at June 30, 2014
Fire Apparatus	April 24, 2008	January 20, 2018	$ 380,000	$ (21,734)

The settlement value of ($21,734) at June 30, 2014 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, 2014. The variable rate on the swap is the USD-BMA Municipal Swap Index.

Note 4. Long-Tern Debt (Continued)

Interest Rate Swap (continued)

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 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.

Market access risk: Market access risk is the risk that the District will not be able to enter credit markets of 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 the 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.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4. Long-Term Debt (Continued)

Summary

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

	June 30, 2013	Increases	Decreases	June 30, 2014
Note payable	$ --	$ 750,000	$ (21,253)	$ 728,747
Capital lease obligations	1,114,167	--	(260,000)	854,167
Total long-term debt	$ 1,114,167	$ 750,000	$ (281,253)	$ 1,582,914

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, 2014, 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%	Republic Bank Loan Dated August 27, 2013 Interest Rate 3.740%	Total
2015	$ 104,139	$ 61,306	$ 53,569	$ 219,014
2016	105,284	60,181	53,569	219,034
2017	101,712	61,140	53,569	216,421
2018	102,633	60,801	53,569	217,003
2019-2024	--	299,151	620,903	920,054
Total	$ 413,768	$ 542,579	$ 835,179	$1,791,526

The present value of the minimum debt service payments on the remaining $854,167 capital lease obligations at June 30, 2014, is summarized as follows:

Minimum debt service payments	$ 956,347
Less Interest	(102,180)
Present value, debt service payment	$ 854,167

Note 5. Retirement Plans

Length of Service Retirement Plan

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

Note 5. Retirement Plans (Continued)

Length of Service Retirement Plan (continued)

Volunteer Buy-out - On October 15, 2013, the District's Board of Trustees approved the buy-out of volunteer members of the Plan. In conjunction with the buy-out, Plan assets totaling $705,974 were returned to the District for purposes of being paid to volunteers or their beneficiaries for previous services rendered. In order to completely fund the volunteers' total vested benefits of $1,406,888, the District financed the remaining deficit of $700,914 by obtaining a $750,000 term loan with a commercial bank (see Note 4). Transactions associated with the termination of the Plan during the year ended June 30, 2014 are reflected in the post-employment benefit fund and included benefit payments totaling $1,406,888 and benefits payable of $110,669 for volunteers or their beneficiaries as of June 30, 2014.

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 18.89%, 19.55% and 16.93% for the years ended June 30, 2014, 2013, 2012, 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 35.70%, 37.60% and 35.76% for the years ended June 30, 2014, 2013, 2012, respectively.

The District's contributions to CERS for the years ended June 30, 2014, 2013, 2012 amounted to $321,910, $335,105 and $308,631, respectively.

Benefits fully vested 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) pr 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.

Note 5. Retirement Plans (Continued)

CERS Plan (continued)

Historical trend information showing 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 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.

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
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
2013-2014	0.10	2,392,780,857	235,174,822	4,684,657	2,645,000	2,646,408	1.00

Note 6. District Revenue Profile (Continued)

Fiscal Year	Real Estate Assessed Valuation	Number of Taxpayer Accounts	Average Assessment
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
2013-2014	2,392,780,857	13,960	171,403

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 to 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 of $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.

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 $39,908 plus accrued interest of $864 as of June 30, 2014. A like amount has been recorded by the District as a receivable from the Academy as of June 30, 2014.

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, 2014, and no accrual for loss was deemed necessary.

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, 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, the combined financial statements of Fern Creek Fire Protection District and Fern Creek Fire Protection District Holding Company, Inc. (the "District"), for the year ended June 30, 2014, and the related notes to the combined financial statements, and have issued our report thereon dated October 9, 2014.

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 opinion 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

Certified Public Accountants and Advisors

642 South Fourth Street, Suite 300 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
October 9, 2014