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

COMBINED FINANCIAL STATEMENTS

JUNE 30, 2009

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

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cotton + allen

the legacy continues

Independent Auditor's Report

October 27, 2009

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, 2009, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund, and the aggregate remaining fund information of the District as of June 30, 2009, and the respective changes in financial position 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 27, 2009, 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.

The Management's Discussion and Analysis on pages 3 and 4 for the year ended June 30, 2009, is not a required part of the combined basic financial statements but is 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, 2009

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, 2009. The District's operations for the year ended June 30, 2009 resulted in an increase in the District's net assets of $287,855 and resulted in net assets of $4,887,117 at June 30, 2009. In accordance with GASB Statement No. 34, the District depreciates its capital assets resulting in a calculation of total accumulated depreciation in the amount of $3,742,021 as of June 30, 2009. Depreciation expense for the year ended June 30, 2009 was $332,393.

Total spending for all governmental funds was $3,205,991, which was $545,194 more than the total revenue of $2,660,797 for the year ended June 30, 2009. The expenditures in excess of revenues were primarily for capitalized items that were purchased with the lease-purchase loan proceeds from the Kentucky Association of Counties Leasing Trust.

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 $45,627 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 is now at the manufacturer for a refurbishing that should extend its useful life at least another 15 years at a cost of $112,591. The refurbishing will be completed and expensed in the next fiscal year. 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 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 Technical Bulletin No. 03-1 *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets* 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, 2009

Reporting the District as a Whole

There was a decrease of $83,570 in cash and cash equivalents and investments, from $1,762,680 at June 30, 2008 to $1,679,110 at June 30, 2009. The statement of net assets and the statement of activities report financial information about the District as a whole and about its activities in a concise form. These statements include all assets and liabilities using the full accrual basis of accounting. All of the 2009 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 $34,575 and the total expenditures were $40,586 more than the amounts budgeted. The expenditures that exceeded the budgeted amounts were due primarily to equipment purchases, an increase in utility costs, and payroll. The majority of expenditures were less than the amounts budgeted for the third 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, 2009 the District responded to 1,042 requests for assistance, of which 223 of those responses were to assist Louisville Metro EMS. 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, 2009

	Governmental Activity
ASSETS	
Cash and cash equivalents (Note 2)	$ 892,305
Accounts receivable, property taxes, and other	26,299
Receivable from training academy (Note 7)	119,181
Investments (Note 2)	786,805
Capital assets, net of depreciation (Note 3)	5,225,114
Land (Note 3)	191,141
Bond call premium, net of amortization (Note 4)	8,143
Lease origination costs, net of amortization (Note 4)	8,062
TOTAL ASSETS	7,257,050
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	8,900
Accrued wages and benefits	118,852
Note payable, Fire Training Academy (Note 7)	119,181
Capital lease obligations (Notes 3 and 4)	
Portion due within one year	220,000
Portion due after one year	1,780,000
Note payable (Note 4)	
Portion due within one year	29,000
Portion due after one year	94,000
Total Liabilities	2,369,933
NET ASSETS	
Investment in capital assets, net of related debt	3,102,114
Unrestricted	1,785,003
Total Net Assets	4,887,117
TOTAL LIABILITIES AND NET ASSETS	$ 7,257,050

COMBINED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

	Governmental Activity
EXPENSES	
Salaries, wages, and benefits	$ 1,432,261
Operating expenses	367,872
Repairs and maintenance expense	139,700
Interest expense	98,413
Depreciation and amortization expense	334,696
Total Expenses	2,372,942
GENERAL REVENUES	
Property taxes	2,416,003
State aid incentives, and other	215,975
Interest earnings	28,819
Total General Revenues	2,660,797
CHANGE IN NET ASSETS	287,855
NET ASSETS, BEGINNING OF YEAR	4,599,262
NET ASSETS, END OF YEAR	$ 4,887,117

COMBINED FUND FINANCIAL STATEMENTS

COMBINED BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2009

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents (Note 2)	$ 626,461	$ 265,844	$ 892,305
Accounts receivable, property taxes, and other	26,299		26,299
Investments (Note 2)	751,805	35,000	786,805
TOTAL ASSETS	1,404,565	300,844	1,705,409
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	8,900		8,900
Accrued wages and benefits	118,852		118,852
Total Liabilities	127,752	0	127,752
FUND BALANCES			
Unreserved	1,276,813		1,276,813
Reserved for:			
Debt service		300,844	300,844
Total Fund Balances	1,276,813	300,844	1,577,657
TOTAL LIABILITIES AND FUND BALANCES	$ 1,404,565	$ 300,844	$ 1,705,409

See Notes to Combined Financial Statements

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

Total fund balances for governmental funds	$ 1,578,237
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.	5,416,255
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.	(2,123,000)
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 $10,857 at June 30, 2009.	8,062
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.	8,143
Total Net Assets of Governmental Activities	$ 4,887,697

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

YEAR ENDED JUNE 30, 2009

	Total Budget	Actual General Fund	Actual Debt Service Fund	Actual Total Governmental Funds	Over (Under) Budget
REVENUES					
Property taxes	$ 2,405,000	$ 2,416,003	$	$ 2,416,003	$ 11,003
State aid incentives, and other	196,222	215,975		215,975	19,753
Interest earnings	25,000	28,819		28,819	3,819
Total Revenues	2,626,222	2,660,797	0	2,660,797	34,575
EXPENDITURES					
Property and equipment additions					
Land and buildings	10,300	5,246		5,246	(5,054)
Vehicles and fire fighting equipment	534,000	586,518		586,518	52,518
Communications and other equipment	348,000	345,308		345,308	(2,692)
Personnel operating expenses	28,200	23,066		23,066	(5,134)
Administrative expenses					
Insurance	60,500	62,791		62,791	2,291
Retirement costs	303,590	292,062		292,062	(11,528)
Legal and accounting	21,400	20,083		20,083	(1,317)
Fire prevention	13,000	11,784		11,784	(1,216)
Treasurer's expenses	400	436		436	36
Wages, payroll taxes, and insurance	1,080,077	1,140,199		1,140,199	60,122
Health and safety programs	24,300	20,107		20,107	(4,193)
Other supplies and miscellaneous	12,800	12,190		12,190	(610)
Operating expenses					
Utilities	90,000	103,336		103,336	13,336
Gasoline and oil	50,000	39,437		39,437	(10,563)
Fire school, fire fighting, and training supplies	21,500	21,071		21,071	(429)
Other supplies and miscellaneous	50,500	43,571		43,571	(6,929)
Training Academy	10,000	10,000		10,000	
Repairs and maintenance expenses					
Vehicles	60,000	56,342		56,342	(3,658)
Buildings	63,000	61,896		61,896	(1,104)
Communication equipment	1,500	397		397	(1,103)
Fire fighting equipment	11,100	15,215		15,215	4,115
Personnel equipment	44,500	5,850		5,850	(38,650)
Debt service					
Principal payments	233,000		233,000	233,000	
Interest payments	93,738		96,086	96,086	2,348
Total Expenditures	3,165,405	2,876,905	329,086	3,205,991	40,586
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE TRANSFERS AND FINANCING SOURCES (USES)	(539,183)	(216,108)	(329,086)	(545,194)	(6,011)
OTHER FINANCING SOURCES (USES)					
Lease obligation proceeds	456,640				
Transfers	82,543	(334,028)	334,028		
Total Other Financing Sources	539,183	(334,028)	334,028	0	
NET CHANGES IN FUND BALANCES	$ 0	(550,136)	4,942	(545,194)	$ (545,194)
FUND BALANCES, BEGINNING OF YEAR		1,826,949	295,902	2,122,851	
FUND BALANCES, END OF YEAR		$ 1,276,813	$ 300,844	$ 1,577,657	

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	$	(545,194)
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 capital outlays ($937,072) exceeded depreciation ($332,393) in the current period.		604,679
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.		233,000
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	$	287,855

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Fern Creek Fire Protection District (the "District") was established for the purpose of providing fire protection and fire prevention services to the citizens and property owners of the District. It 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 a Special Taxing District under Commonwealth of Kentucky law; consequently, it is exempt from income taxes.

The Fern Creek Fire Protection District Holding Company, Inc. (the "Holding Company"), which principally finances property and equipment acquisitions, is also a non-profit corporation, and therefore, is also exempt from income taxes.

Government-Wide Financial Statements

In accordance with Government Accounting Standards Board Statement ("GASB") No. 34, 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 FASB Statements and Interpretations – Reporting on governmental-type activities are based on 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.

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:

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Combined Fund Financial Statements (Continued)

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 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 Kentucky law. The budget is prepared on a basis consistent with generally accepted accounting principles.

Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF 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.

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits

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. Consistent with the District's deposit policy, as of June 30, 2009 all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Investments

At June 30, 2009, the District's investment balances were as follows:

	Maturity	Amortized Cost	Fair Value
Certificate of deposit			
Interest rate of 3.93%	December 2009	$ 35,000	$ 35,000
Interest rate of 1.60%	August 2009	251,309	251,309
Interest rate of 2.54%	October 2009	250,496	250,496
Interest rate of 2.40%	February 2009	250,000	250,000
		$ 786,805	$ 786,805

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing 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 investment policy that would further limit its investment choices as they are defined in KRS 66.480.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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, 2009, 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, 2009 was as follows:

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Land and buildings	$ 4,098,228	$ 5,246	$	$	$ 4,103,474
Vehicles and fire fighting equipment	3,389,440	129,878	456,640		3,975,958
Communications and other equipment	733,536	345,308			1,078,844
Deposit on fire apparatus	456,640		(456,640)		
Total Cost	8,677,844	480,432	0	0	9,158,276
Less accumulated depreciation					
Buildings	(1,230,388)	(80,308)			(1,310,696)
Vehicles and fire fighting equipment	(1,675,164)	(126,827)			(1,801,991)
Communications and other equipment	(504,076)	(125,258)			(629,334)
Total Accumulated Depreciation	(3,409,628)	(332,393)	0	0	(3,742,021)
Net Book Value	$ 5,268,216	$ 148,039	$ 0	$ 0	$ 5,416,255

The net book value of capital assets financed through capital leases was $1,484,392 at June 30, 2009.

NOTE 4. LONG-TERM DEBT

Leases

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.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4. LONG-TERM DEBT (CONTINUED)

Interest Rate Swap

In April 2008, the District entered into a finance lease agreement with the Kentucky Association of Counties Leasing Trust ("KACoLT") in the original amount of $850,000 for the purchase of a new fire apparatus. The rate in the lease was fixed at 4.103% 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.

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, 2009 is as follows:

	Effective Date	Termination Date	Notional Amount at June 30, 2009	Settlement Value at June 30, 2009
Fire apparatus	April 24, 2008	January 20, 2018	$ 780,000	($24,450)

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, 2009. 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.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4. LONG-TERM DEBT (CONTINUED)

Interest Rate Swap (Continued)

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

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

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

Summary

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

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009
Long-Term Debt				
Notes payable	$ 151,000	$	$ 28,000	$ 123,000
Capital lease obligations	2,205,000		205,000	2,000,000
Total Long-Term Debt	$ 2,356,000	$ 0	$ 233,000	$ 2,123,000

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4. LONG-TERM DEBT (CONTINUED)

Summary (Continued)

A summary of the District's long-term debt payments (principal, interest, and fees), excluding any additional rentals resulting from the interest rate swap, at June 30, 2009, 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
2010	$ 35,150	$ 104,375	$ 65,988	$ 130,775	$ 336,288
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
2015-2019		413,968	323,438		737,406
2020-2023			256,425		256,425
Total	$ 138,600	$ 933,428	$ 900,865	$ 640,670	$ 2,613,563

The present value of the minimum debt service payments on the remaining $2,123,000 capital lease obligations and note payable is summarized as follows:

June 30,	2009
Minimum debt service payments	$ 2,613,563
Less interest	(490,563)
Present Value, Debt Service Payment	$ 2,123,000

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

The Fire Protection District has a Length of Service Awards Program (the "Plan") administered by the Volunteer Fireman's Insurance Service 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. The Fire Protection District's funding policy is to contribute annually an amount determined by its actuaries 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.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5. RETIREMENT PLANS (CONTINUED)

Length of Service Retirement Plan (Continued)

The District's annual pension cost and net pension obligation to the Plan for the year ended June 30, 2009 were as follows:

Annual Pension Cost	$ 61,141
Contributions made	61,141
Increase in Net Pension Obligation	0
Net pension obligation, beginning of year	
Net Pension Obligation, End of Year	$ 0

The required annual contribution for the current year was determined as a part of the March 31, 2009 actuarial valuation. The actuarial assumptions included a 5% investment rate of return.

	Three Year Trend Information		
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	$ 65,266	100.00	$ 0
June 30, 2007	64,837	100.00	0
June 30, 2006	59,992	100.00	0

The projected benefit obligation in excess of Plan assets to be paid in the future amounted to $735,870 at March 31, 2009. The District has mortgaged real estate known as Fire Station #1 to the Volunteer Fireman's Insurance Service, Inc. to secure this projected obligation.

CERS Plan

The District participates in the County Employees Retirement System ("CERS"), which is a cost-sharing multiple-employer public employee retirement system which covers all regular full-time employees. CERS provides for retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Vesting begins immediately upon entry into CERS.

The Kentucky Retirement System issues a publicly available financial report that includes audited financial statements and required supplementary information for CERS. The date of the most recent actuarial valuation of CERS is June 30, 2008. An annual report of the Plan is available through the Kentucky Retirement Systems in Frankfort, Kentucky.

Plan members are required to contribute 5.00% (non-hazardous) or 8.00% (hazardous) of their annual covered salary, and the District is required to contribute at the rates of 13.50% and 29.50%, respectively. The District's 2009 contribution rates have decreased from 16.17% and 33.87% in 2008. The contribution rates were 13.19% and 28.21% in 2007. The contribution requirements of Plan members and the District are established based on actuarial assumptions and may be amended by the CERS Board of Trustees. The District's contributions to CERS for the years ended June 30, 2009, 2008, and 2007 amounted to $226,121, $229,367, and $192,731, respectively.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6. DISTRICT REVENUE PROFILE

A 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
2001 - 2002	0.10	$ 1,310,119,188	$ 148,297,351	$ 4,102,693	$ 1,336,000	$ 1,496,215	1.12
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	2,416,003	1.00

Fiscal Year	Real Estate Assessed Valuation	Number of Taxpayer Accounts	Average Assessment
2001 - 2002	$ 1,310,119,188	10,965	$ 119,482
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

NOTE 7. FIRE TRAINING ACADEMY

During 2002, the District, along with Jeffersontown, Buechel, and Lyndon Fire Protection Districts, signed a Construction/Permanent Loan Note (the "Note") with a local bank as equal borrowers to borrow up to $620,000. The Note is secured by real estate with a cost basis of approximately $570,000. As draws were made on the 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 Note and financed by the Districts. In November 2003, the Note was converted into a "permanent" note at a fixed rate of 4.55% for 72 months. These rates and terms are the same for the receivable due from the Academy.

NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7. FIRE TRAINING ACADEMY (CONTINUED)

The District, as an equal co-borrower, is responsible for 25% of the outstanding balance of the Note but is jointly and severally liable on the balance of the Note. Management evaluated the District's exposure to loss at June 30, 2009, and no accrual was deemed necessary. A note payable has been recorded on the District's records for $115,817, together with accrued interest of $3,364, for a total amount of $119,181 at June 30, 2009. A like amount has been recorded by the District as a receivable from the Academy as of June 30, 2009.

The above noted Districts will pay fees to the Academy to utilize the facilities for fire training for their 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 facility.

SUPPLEMENTARY INFORMATION

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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 27, 2009

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

We have audited the 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, 2009 and have issued our report thereon dated October 27, 2009. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

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

The 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.