FERN CREEK FIRE PROTECTION DISTRICT AND FERN CREEK FIRE PROTECTION DISTRICT HOLDING COMPANY, INC.

Combining Financial Statements and Supplementary Information

Year Ended June 30, 2011

with Independent Auditors' Report Thereon

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DEAN || DORTON || ALLEN || FORD PLLC

Independent Auditors' Report

Board of Trustees
Fern Creek Fire Protection District and
Fern Creek Fire Protection District
Holding Company, Inc.
Louisville, 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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2011 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.

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

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

www.ddafcpa.com

The Management's Discussion and Analysis on pages 3 through 4 and the Schedule of Funding Progress for the Length of Service Retirement Plan Program on page 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Dean Dorton Allen Ford

September 20, 2011
Louisville, Kentucky

FERN CREEK FIRE PROTECTION DISTRICT AND FERN CREEK FIRE PROTECTION DISTRICT HOLDING COMPANY, INC.

Management's Discussion and Analysis

Year Ended June 30, 2011

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, 2011. The District's operations for the year ended June 30, 2011 resulted in an increase in the District's net assets of $297,549 and resulted in net assets of $5,344,569 at June 30, 2011. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, the District depreciates its capital assets resulting in a calculation of total accumulated depreciation in the amount of $4,441,604 as of June 30, 2011. Depreciation expense for the year ended June 30, 2011 was $373,582.

Total expenditures for all governmental funds was $2,588,656, which was $150,053 less than the total revenues of $2,738,709 for the year ended June 30, 2011.

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 the above lease, in Note 5 to the combined financial statements, the District has disclosed various risks associated with an interest rate swap arrangement with a third party financial institution utilized to fix the interest rate paid on the lease. The rate is fixed at 4.01%. The additional disclosures concerning the interest rate swap arrangement are required under GASB Statement No. 53 and include comprehensive and lengthy reporting requirements. If the lease and/or interest rate swap arrangement are terminated prior to maturity for any reason, the District may incur additional costs. However, District management believes that the potential impact on the combined financial statements would not be material.

Reporting the District as a Whole

There was an increase of $158,316 in cash and cash equivalents and investments, from $1,719,849 at June 30, 2010 to $1,878,165 at June 30, 2011. 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 2011 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 $2,061 and the total expenditures were $69,985 less than the amounts budgeted. The expenditures that exceeded the budgeted amounts were due primarily to utilities and fuel for vehicles. The majority of expenditures were less than the amounts budgeted for the fifth 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, 2011 the District responded to 923 requests for assistance, of which 337 of those responses were to assist Louisville Metro EMS. Our responses to assist EMS were at nearly the same level of 348 runs that were made in the prior year, even though our response level is only to life threatening situations such as patients having difficulty breathing. Responses to assist EMS were 37% of the District's run volume during the current year. Although the District is experiencing a substantial increase in operating costs for medical responses to assist Louisville Metro EMS, it does not 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. The total cost including benefits to staff a station with career firefighters is approximately $810,000 per year. At that rate it would cost the District $2,400,000 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 doubled. Without the assistance of the District's 48 volunteers we would not be able to provide adequate protection to the District. Currently, Station 4 is the only station in the District that is staffed on a 24 hour basis. 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, 2010 of 5:21 was only 23 seconds longer than the average response time of 4:58 during the twelve months ended December 31, 2010 for all the suburban fire districts. The higher average response time is attributed to a longer response time in the rural area of the District. As a further comparison, the Louisville Fire Department had an average response time of 4:40 during the twelve months ended December 31, 2010. In the opinion of the District's management, the District consistently provides a high level of service to our community with a minimum level of financial resources.

Contacting the District's Financial Management

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

COMBINED GOVERNMENT-WIDE FINANCIAL STATEMENTS

FERN CREEK FIRE PROTECTION DISTRICT AND FERN CREEK FIRE PROTECTION DISTRICT HOLDING COMPANY, INC.

Combined Statement of Net Assets

June 30, 2011

		Governmental Activity
Assets		
Cash and cash equivalents	$	1,343,125
Accounts receivable, property taxes, and other		24,163
Receivable from training academy		48,964
Investments		535,040
Capital assets, net of depreciation		4,945,557
Land		191,141
OPEB asset, net		48,107
Bond call premium, net of amortization		3,455
Lease origination costs, net of amortization		3,490
Total assets		7,143,042
Liabilities and Net Assets		
Liabilities:		
Accounts payable		9,008
Accrued wages and benefits		117,501
Note payable, Fire Training Academy		48,964
Capital lease obligations		
Portion due within one year		230,000
Portion due after one year		1,330,000
Note payable		
Portion due within one year		29,000
Portion due after one year		34,000
Total liabilities		1,798,473
Net assets:		
Investment in capital assets, net of related debt		3,513,698
Unrestricted		1,830,871
Total net assets		5,344,569
Total liabilities and net assets	$	7,143,042

See accompanying notes.

FERN CREEK FIRE PROTECTION DISTRICT AND FERN CREEK FIRE PROTECTION DISTRICT HOLDING COMPANY, INC.

Combined Statement of Activities

Year Ended June 30, 2011

	Governmental Activity
Expenses	
Salaries, wages, and benefits	$ 1,513,177
Operating expenses	341,945
Repairs and maintenance expense	129,316
Interest expense	80,837
Depreciation and amortization expense	375,885
Total expenses	2,441,160
General revenues	
Property taxes	2,570,046
State aid incentives, and other	149,695
Interest earnings	18,968
Total general revenues	2,738,709
Change in net assets	297,549
Net assets, beginning of year	5,047,020
Net assets, end of year	$ 5,344,569

See accompanying notes.

COMBINED FUND FINANCIAL STATEMENTS

FERN CREEK FIRE PROTECTION DISTRICT AND FERN CREEK FIRE PROTECTION DISTRICT HOLDING COMPANY, INC.

Combined Balance Sheet - Governmental Funds

June 30, 2011

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 1,076,340	$ 266,785	$ 1,343,125
Accounts receivable, property taxes, and other	24,163	-	24,163
Investments	499,000	36,040	535,040
Total assets	1,599,503	302,825	1,902,328
Liabilities and Fund Balances			
Liabilities			
Accounts payable	9,008	-	9,008
Accrued wages and benefits	117,501	-	117,501
Total liabilities	126,509	-	126,509
Fund balances			
Nonspendable	5,869	-	5,869
Restricted for:			
Debt service	-	302,825	302,825
Assigned for:			
Vehicle replacement	219,334	-	219,334
Building maintenance	312,700	-	312,700
Training	52,953	-	52,953
Equipment	89,086	-	89,086
Future payroll costs	249,899	-	249,899
Unassigned	543,153	-	543,153
Total fund balances	1,472,994	302,825	1,775,819
Total liabilities and fund balances	$ 1,599,503	$ 302,825	$ 1,902,328

See accompanying notes.

FERN CREEK FIRE PROTECTION DISTRICT AND FERN CREEK FIRE PROTECTION DISTRICT HOLDING COMPANY, INC.

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

Total fund balances for governmental funds	$	1,775,819
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.		5,136,698
Other post-employment benefit ("OPEB") asset, net is not available to pay for current expenditures related to the District's Length of Service Retirement Plan and therefore is not reported as an asset in the general fund.		48,107
Long-term liabilities applicable to the District's governmental activities are not reported as fund liabilities. All liabilities including long-term are reported in the statement of net assets.		(1,623,000)
Lease origination costs are expensed and not reported as an asset under the District's governmental activities. Origination costs are capitalized on the statement of net assets, net of accumulated amortization of $15,357 at June 30, 2011.		3,455
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.		3,490
Total net assets of governmental activities	$	5,344,569

See accompanying notes.

FERN CREEK FIRE PROTECTION DISTRICT AND FERN CREEK FIRE PROTECTION DISTRICT HOLDING COMPANY, INC.

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

Year Ended June 30, 2011

	Total Budget	Actual General Fund	Actual Debt Service Fund	Actual Total Governmental Funds	Over (Under) Budget
Revenues					
Property taxes	$ 2,575,000	$ 2,570,046	$ -	$ 2,570,046	$ (4,954)
State aid incentives, and other	136,648	149,695	-	149,695	13,047
Interest earnings	25,000	18,968	-	18,968	(6,032)
Total revenues	2,736,648	2,738,709	-	2,738,709	2,061
Expenditures					
Property and equipment additions					
Land and buildings	125,000	124,218	-	124,218	(782)
Vehicles and fire fighting equipment	83,703	82,129	-	82,129	(1,574)
Communication and other equipment	22,300	20,254	-	20,254	(2,046)
Personnel operating expenses	20,800	18,902	-	18,902	(1,898)
Administrative expenses					
Insurance	52,000	48,890	-	48,890	(3,110)
Retirement costs	431,075	422,156	-	422,156	(8,919)
Legal and accounting	22,500	15,793	-	15,793	(6,707)
Fire prevention	20,500	8,643	-	8,643	(11,857)
Treasurer's expenses	500	459	-	459	(41)
Wages, payroll taxes, and insurance	1,153,978	1,139,128	-	1,139,128	(14,850)
Health and safety programs	25,000	22,105	-	22,105	(2,895)
Other supplies and miscellaneous	12,325	9,741	-	9,741	(2,584)
Operating expenses					
Utilities	95,000	101,376	-	101,376	6,376
Gasoline and oil	45,000	51,694	-	51,694	6,694
Fire school, fire fighting, and training supplies	22,000	20,009	-	20,009	(1,991)
Other supplies and miscellaneous	49,450	34,333	-	34,333	(15,117)
Training academy	10,000	10,000	-	10,000	-
Repairs and maintenance expenses					
Vehicles	60,000	42,648	-	42,648	(17,352)
Buildings	62,500	67,637	-	67,637	5,137
Communication equipment	3,000	2,957	-	2,957	(43)
Fire fighting equipment	5,000	9,976	-	9,976	4,976
Personnel equipment	7,500	6,098	-	6,098	(1,402)
Debt service					
Principal payments	251,000	-	251,000	251,000	-
Interest payments	78,510	-	78,510	78,510	-
Total expenditures	2,658,641	2,259,146	329,510	2,588,656	(69,985)
Excess (deficiency) of revenues over expenditures before transfers	78,007	479,563	(329,510)	150,053	72,046
Transfers					
Transfers from other funds	48,108	-	335,065	335,065	286,957
Transfers to other funds	(126,115)	(335,065)	-	(335,065)	(208,950)
Total transfers	(78,007)	(335,065)	335,065	-	78,007
Net change in fund balances	-	144,498	5,555	150,053	150,053
Fund balances, beginning of year		1,328,496	297,270	1,625,766	
Fund balances, end of year		$ 1,472,994	$ 302,825	$ 1,775,819	

See accompanying notes.

FERN CREEK FIRE PROTECTION DISTRICT AND FERN CREEK FIRE PROTECTION DISTRICT HOLDING COMPANY, INC.

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	$	150,053
The change in net assets reported for governmental activities in the combined statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the combined statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation ($373,582) exceeded capital outlays ($226,601) in the current period.		(146,981)
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.		251,000
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 OPEB asset on the statement of net assets.		48,107
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	$	297,549

See accompanying notes.

1. Nature of the Organization

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

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

2. Summary of Significant Accounting Policies

Management's Use of Estimates

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

Combined Government-Wide Financial Statements

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

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

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

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

2. Summary of Significant Accounting Policies, continued

Combined Government-Wide Financial Statements, continued

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:

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

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

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

Measurement Focus and Basis of Accounting

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

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

2. Summary of Significant Accounting Policies, continued

Measurement Focus and Basis of Accounting, continued

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

Budgetary Accounting

The budget information reflected in the combined financial statements is the annual budget adopted by the District in accordance with the provisions of Commonwealth of Kentucky law. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

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

Investments

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

Capital Assets

Capital assets, including land, buildings and 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.

2. Summary of Significant Accounting Policies, continued

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

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

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

Nonspendable – These resources include amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The District's nonspendable funds consisted of prepaid expenses as of June 30, 2011.

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, 2011.

Committed - Amounts constrained for a specific purpose by the District using its highest level of decision-making authority. For resources considered committed the Board of Trustees issues a resolution that can only be changed with another corresponding resolution. The District had no committed funds as of June 30, 2011.

2. Summary of Significant Accounting Policies, continued

Net Assets/Fund Balances, continued

Assigned - Include 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, 2011.

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

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

Compensated Absences

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

Revenue Recognition - Property Taxes

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

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

3. Deposits and Investments

Deposits

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

3. Deposit and Investments, continued

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a written deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed security agreement.

Investments

As of June 30, 2011, the District's investment balances were as follows:

	Maturity	Amortized Cost	Fair Value
Certificates of deposit			
Interest rate of 1.40%	February 2013	$ 249,000	$ 249,000
Interest rate of 1.05%	February 2013	250,000	250,000
Interest rate of 1.00%	May 2012	36,040	36,040
		$ 535,040	$ 535,040

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

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

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

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of failure of the counterparty or bank, the District will not be able to recover the value of its investments held in the possession of an outside party. Consistent with the District's investment policy, as of June 30, 2011, all investments were covered by FDIC insurance or a properly executed collateral security agreement.

4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land and buildings	$ 4,110,359	$ 124,218	$ -	$ 4,234,577
Vehicles and fire fighting equipment	4,114,717	82,129	-	4,196,846
Communications and other equipment	1,126,625	20,254	-	1,146,879
Total cost	9,351,701	226,601	-	9,578,302
Less accumulated depreciation				
Buildings	(1,391,291)	(82,331)	-	(1,473,622)
Vehicles and fire fighting equipment	(1,906,391)	(148,305)	-	(2,054,696)
Communications and other equipment	(770,340)	(142,946)	-	(913,286)
Total accumulated depreciation	(4,068,022)	(373,582)	-	(4,441,604)
Net book value	$ 5,283,679	$ (146,981)	$ -	$ 5,136,698

The net book value of capital assets financed through capital leases was $1,290,381 at June 30, 2011.

5. Long-Term Debt

Capital Lease Obligations

The District finances certain buildings and firefighting equipment acquisitions under capital lease agreements expiring through 2023. The assets and liabilities on the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets and are depreciated over the estimated productive life of the asset which is generally longer than the lease term.

Interest Rate Swap

In April 2008, the District entered into a finance lease agreement with the Kentucky Association of Counties Leasing Trust ("KACoLT") in the original amount of $850,000 for the purchase of a new fire apparatus. The rate in the lease was fixed at 4.013% 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.

5. Long-Term Debt, continued

Interest Rate Swap, continued

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

The interest rate swap in effect as of June 30, 2011 is as follows:

	Effective Date	Termination Date	Notional Amount at June 30, 2011	Settlement Value at June 30, 2011
Fire apparatus	April 24, 2008	January 20, 2018	$ 630,000	$ (39,320)

The settlement value of ($39,320) at June 30, 2011 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, 2011. The variable rate on the swap is the USD-BMA Municipal Swap Index.

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

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

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

5. Long-Term Debt, continued

Interest Rate Swap, continued

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

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

Summary

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

	June 30, 2010	Increases	Decreases	June 30, 2011
Note payable	$ 94,000	$ -	$ (31,000)	$ 63,000
Capital lease obligations	1,780,000	-	(220,000)	1,560,000
Total long-term debt	$ 1,874,000	$ -	$ (251,000)	$ 1,623,000

5. Long-Term Debt, continued

Summary, continued

A summary of the District's long-term debt payments (principal, interest, and fees), excluding any additional rentals resulting from the interest rate swap, at June 30, 2011, is as follows:

	Note Payable	Capital Lease Obligation			
Fiscal Year	FmHA Mortgage Note Dated March 20, 1985 Interest Rate 5.0%	Kentucky Association of Counties Dated April 21, 2008 Interest Rate 4.013%	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
2012	$ 34,150	$ 104,230	$ 63,363	$ 127,485	$ 329,228
2013	33,600	105,971	61,788	127,900	329,259
2014	-	102,596	65,100	127,750	295,446
2015	-	104,139	63,200	-	167,339
2016	-	105,484	66,075	-	171,559
2017-2021	-	204,346	323,538	-	527,884
2022-2023	-	-	127,050	-	127,050
Total	$ 67,750	$ 726,766	$ 770,114	$ 383,135	$ 1,947,765

The present value of the minimum debt service payments on the remaining $1,623,000 capital lease obligations and note payable is summarized as follows:

June 30,	2011
Minimum debt service payments	$ 1,947,765
Less interest	(324,765)
Present Value, Debt Service Payment	$ 1,623,000

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.

6. Retirement Plans

Length of Service Retirement Plan

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

6. Retirement Plans, continued

Length of Service Retirement Plan, continued

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

Annual OPEB Cost and Net OPEB Obligation - The District's annual other post-employment benefit ("OPEB") cost under the plan is calculated based on the annual required contribution ("ARC") of the District, which is an amount actuarially determined by VFIS. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The District's annual required contribution and net OPEB obligation to the Plan for the year ended June 30, 2011 were as follows:

Annual required contribution	$	95,000
Contributions made		143,107
Increase (decrease) in net OPEB obligation		(48,107)
Net OPEB obligation, beginning of year		-
Net OPEB obligation (asset), end of year	$	(48,107)

The required annual contribution for the current year was determined as a part of the March 31, 2011 actuarial valuation. The actuarial assumptions included a 4.75% investment rate of return.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2011	$ 95,000	100%	$ (48,107)
June 30, 2010	107,648	100%	-
June 30, 2009	61,141	100%	-

Funding Status and Funding Progress - The projected benefit obligation in excess of plan assets to be paid in the future totaled $688,134 at March 31, 2011. The District has mortgaged real estate known as Fire Station #1 to VFIS to secure this projected obligation.

6. Retirement Plans, continued

Length of Service Retirement Plan, continued

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the combined financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

CERS Plan

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

Nonhazardous covered employees are required to contribute 5.00% of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6.00% of their salary to the plan. The District's contribution rate for nonhazardous employees was 16.93%, 16.16%, and 13.50% for the years ended June 30, 2011, 2010, and 2009, 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 33.25%, 32.97%, and 29.50% for the years ended June 30, 2011, 2010, and 2009, respectively.

The District's contributions to CERS for the years ended June 30, 2011, 2010, and 2009 amounted to $274,249, $260,875, and $226,121, respectively.

6. Retirement Plans, continued

CERS, continued

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

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

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Deferred Compensation Plans

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

7. District Revenue Profile

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

Fiscal Year	Tax Rate	Real Estate Assessed Valuation	Motor Vehicle Assessed Valuation	Boat Assessed Valuation	Tax Revenue Budgeted	Tax Revenue Collected	Tax Collection Percentage
2003 - 2004	0.10	$ 1,511,041,133	$ 153,171,078	$ 4,065,538	$ 1,670,000	$ 1,723,774	1.03
2004 - 2005	0.10	1,619,635,133	157,396,886	4,247,834	1,865,000	1,815,276	0.97
2005 - 2006	0.10	1,771,572,943	174,560,876	4,474,346	2,025,000	2,003,968	0.99
2006 - 2007	0.10	1,999,001,065	186,137,961	4,481,158	2,157,000	2,212,634	1.03
2007 - 2008	0.10	2,131,988,395	190,488,112	4,385,852	2,245,000	2,370,781	1.06
2008 - 2009	0.10	2,241,547,165	203,589,580	4,588,492	2,405,000	2,413,003	1.00
2009 - 2010	0.10	2,306,129,395	182,836,413	4,635,895	2,505,000	2,502,645	1.00
2010 - 2011	0.10	2,333,066,495	194,233,773	4,874,482	2,575,000	2,570,046	1.00

Fiscal Year	Real Estate Assessed Valuation	Number of Taxpayer Accounts	Average Assessment
2003 - 2004	$ 1,511,041,133	11,384	$ 132,734
2004 - 2005	1,619,635,133	12,029	125,617
2005 - 2006	1,771,572,943	12,314	122,709
2006 - 2007	1,999,001,065	12,952	116,665
2007 - 2008	2,131,988,395	13,306	113,561
2008 - 2009	2,241,547,165	13,660	110,618
2009 - 2010	2,306,129,395	13,788	109,591
2010 - 2011	2,333,066,495	13,786	109,607

8. Fire Training Academy

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

8. Fire Training Academy, continued

On November 25, 2009, the District, along with eight other suburban fire districts, obtained a loan (the "new note") in the amount of $463,268 for the purpose of refinancing the balance owed on the original note. The new note bears interest at a fixed rate of 4.27% and matures on November 25, 2014. These rates and terms are the same for the receivable due from the Academy. The District, as an equal co-borrower, is responsible for 11.11% of the outstanding balance of the new note but is jointly and severally liable on the balance of the new note. The new note is also secured by the real estate owned by the Academy with a cost basis of approximately $570,000. The District has recorded a note payable in the amount of $47,978 plus accrued interest of $985 as of June 30, 2011. A like amount has been recorded by the District as a receivable from the Academy as of June 30, 2011.

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, 2011, and no accrual for loss was deemed necessary.

SUPPLEMENTARY INFORMATION

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)
03/31/2011	$ 277,773	$ 965,907	$ 688,134	28.8%
03/31/2010	308,060	1,034,449	726,389	29.8%
03/31/2009	283,487	1,019,357	735,870	27.8%

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Independent Auditors' 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*

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

We have audited the combined financial statements of Fern Creek Fire Protection District and Fern Creek Fire Protection District Holding Company, Inc. (the "District") as of and for the year ended June 30, 2011, and have issued our report thereon dated September 20, 2011. 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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

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

www.ddafcpa.com

Compliance and Other Matters

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

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

Dean Dorton Allen Ford

September 20, 2011
Louisville, Kentucky