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

COMBINED FINANCIAL STATEMENTS

June 30, 2018

CONTENTS

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of the governmental activities and each major fund of the Fern Creek Fire Protection District and the Fern Creek Fire Protection District Holding Company, Inc. (the District), as of and for the year ended June 30, 2018, and the related notes to the combined financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Certified Public Accountants and Advisors
642 South Fourth Street, Suite 300 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Fern Creek Fire Protection District and the Fern Creek Fire Protection District Holding Company, Inc., as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5, Schedule of District's Proportionate Share of Net Pension Liability and Schedule of District Contributions – Pension Portion on page 31 and 32, and Schedule of District's Proportionate Share of Net OPEB Liability and Schedule of District Contributions – OPEB Portion on page 33 and 34, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2018, on our consideration of the Fern Creek Fire Protection District and the Fern Creek Fire Protection District Holding Company, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
October 3, 2018

FERN CREEK FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

The purpose of the management's discussion and analysis is to provide an overview of the financial activities of the Fern Creek Fire Protection District and Fern Creek Fire Protection District Holding Company, Inc. (collectively the District) based on currently known facts, decisions, or conditions and should be read in conjunction with the District's combined financial statements, which begin on page 6.

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, 2018. Effective July 1, 2014, the District adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The statement requires the liability of employers, such as the District, to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, the District adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions effective July 1, 2017. The statement requires the liability of employers, such as the District, to employees for other postemployment benefits (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided through the OPEB plan to current active and inactive employees that is attributed to those employee's past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

The District's operations for the year ended June 30, 2018 resulted in a decrease in the District's net position of $91,875. 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 $6,612,785 as of June 30, 2018. Depreciation expense for the year ended June 30, 2018 was $330,647.

Total expenditures for all governmental funds were $3,311,789 which was $21,877 more than the total revenues of $3,289,912 for the year ended June 30, 2018. Capital asset additions for the current year were $510,551 for the current fiscal year and additional details can be found in Note 3 of the financial statements.

In October 2017, the District entered into a lease agreement for $300,000 with U.S. Bancorp Government Leasing and Finance, Inc. in order to finance the refurbishing of a fire truck and the equipment that is being used on it. The rate is fixed at 2.89% and is being financed over ten years with payments due in April and October each year. The details for long-term debt can be found in Note 4 of the financial statements.

Reporting the District as a Whole

There was an increase of $550,628 in cash and investments, from $1,531,297 at June 30, 2017 to $2,081,925 at June 30, 2018. The combined statement of net position 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 2018 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 8 of these statements. The General and Debt Fund revenues for the fiscal year were more than the amount budgeted by $45,773 and the total expenditures were $21,561 more than the amounts budgeted. The majority of line-item expenditures were less than the amounts budgeted for the twelfth 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 for the current economic period.

During the year ended June 30, 2018 the District responded to 1,118 requests for assistance, of which 303 of those responses were to assist Louisville Metro EMS. The responses to assist EMS were up from the 225 runs that were made in the prior year. Even though the District has reduced its response level to only life threatening situations such as patients having difficulty breathing, calls to assist EMS rose due to an inadequate number of EMS units. Responses to assist EMS were 27% of the District's run volume during the current year, compared to 21%, 13%, 18%, and 21% for fiscal years 2014, 2015, 2016 and 2017, respectively. Although the District is experiencing a substantial increase in operating costs for medical responses to assist Louisville Metro EMS, it does not currently charge for those medical services or receive compensation from Louisville Metro Government.

The District levies a property tax at the rate of ten cents ($.10) per hundred dollars ($100) of property valuation for both real and personal property. The District is legally prohibited from assessing a rate, which is higher than the ten cents per hundred dollars of valuation. The current property tax rate has been capped for over 60 years and was based on departments that did not have career firefighters. Currently, the District has two stations that are staffed on a 24 hour basis. The total cost including benefits to staff a station with career firefighters is approximately $980,000 per year. At that rate it would cost the District an additional $1,960,000 to provide 24 hour staffing at the other two stations that are now manned by volunteers and would require a dramatic increase of the present budget. During the past year the number of volunteers decreased from 31 to 25. In spite of the increased effort to recruit volunteers, the number of volunteers is decreasing because of the busy lifestyle of the current generation.

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. Still, the average response time during the year ended June 30, 2018 was only 5:48 minutes. For response purposes, the suburban fire districts basically operate now as one fire department, so that the closest staffed unit will respond to a call for help, even if the call is outside its district boundary. With the opening of the Parklands recreation area in 2015, the District began training exercises for the anticipated type of responses needed in the various parks. The responses to date have included water rescues, medical emergencies, brush fires and search and rescue missions. In 2017, the District purchased a swift water rescue boat and a special off-road rescue vehicle to assist in the responses to the park. In the opinion of the District's management, the District consistently provides the highest level of service possible to the community with the current level of financial resources available.

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 Treasurer, Susan Pierce, CPA, Fern Creek Fire Protection District, P.O. Box 91025, Louisville, KY 40291.

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

COMBINED STATEMENT OF NET POSITION
June 30, 2018

	2018	
ASSETS		
Current assets:		
Cash	$ 2,081,925	
Restricted cash	38,860	
Investments - short term	781,369	
Accounts receivable, property taxes, and other	29,844	
Prepaid expenses	15,114	
Total current assets	2,947,112	
Non-current assets:		
Equipment refurbishment in process	285,684	
Capital assets, net of depreciation	3,464,645	
Land	191,141	
Total non-current assets	3,941,470	
Total assets	6,888,582	
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	1,499,385	
Deferred outflows related to OPEB	638,713	
Total deferred outflows of resources	2,138,098	
TOTAL ASSETS AND DEFERRED OUTFLOWS		$ 9,026,680
LIABILITIES		
Current liabilities:		
Current maturities of note payable	$ 7,323	
Current portion of capital lease	78,739	
Accounts payable	44,047	
Accrued wages and benefits	217,274	
Accrued interest	1,382	
Total current liabilities	348,765	
Non-current liabilities:		
Capital leases, less current portion	477,384	
Net pension liability	3,982,285	
Net OPEB liability	1,467,845	
Total non-current liabilities	5,927,514	
Total liabilities	6,276,279	
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	231,298	
Deferred inflows related to OPEB	95,194	
Total deferred inflows of resources	326,492	
NET POSITION		
Net investment in capital assets	3,378,024	
Unrestricted (deficit)	(954,115)	
Total net position	2,423,909	
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION		$ 9,026,680

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

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

COMBINED STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	2018
EXPENSES	
Salaries, wages, and benefits	$ 2,519,102
Operating expenses	324,364
Repairs and maintenance expense	189,386
Interest expense	18,288
Depreciation expense	330,647
Total expenses	3,381,787
GENERAL REVENUES	
Property taxes	3,121,742
State aid incentives and other	154,297
Interest earnings	13,873
Total general revenues	3,289,912
Change in net position	(91,875)
Net position, beginning of year, as previously reported	3,306,914
Cumulative effect of adoption of new accounting principle	(791,130)
Net position, beginning of year, as restated	2,515,784
Net position, end of year	$ 2,423,909

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

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

COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash	$ 1,956,661	$ 125,264	$ 2,081,925
Restricted cash	38,860	--	38,860
Accounts receivable, property taxes, and other	29,844	--	29,844
Investments	781,369	--	781,369
Prepaid expenses	15,114	--	15,114
Total assets	$ 2,821,848	$ 125,264	$ 2,947,112
LIABILITIES			
Accounts payable	$ 44,047	$ --	$ 44,047
Accrued interest	1,382	--	1,382
Accrued wages and benefits	217,274	--	217,274
Total liabilities	262,703	--	262,703
FUND BALANCES			
Non spendable	15,114	--	15,114
Restricted for:			
Debt Service	--	125,264	125,264
Assigned for:			
Vehicle replacement	219,334	--	219,334
Building maintenance	413,954	--	413,954
Training	52,953	--	52,953
Equipment	89,086	--	89,086
Future payroll costs	261,595	--	261,595
Volunteer Fund	24,509	--	24,509
Unassigned	1,482,600	--	1,482,600
Total fund balances	2,559,145	125,264	2,684,409
Total liabilities and fund balances	$ 2,821,848	$ 125,264	$ 2,947,112

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

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 POSITION

June 30, 2018

Total fund balances for governmental funds	$ 2,684,409
Total net position reported for governmental activities in the combined statement of net position is different because:	
Land and capital assets, net of depreciation, used in governmental activities are not financial resources, and therefore, not reported in governmental funds.	3,941,470
Liabilities such as notes payable and capital leases are applicable to the District's governmental activities are not reported as liabilities in governmental funds. Such non-current liabilties are reported in the combined statement of net position.	(563,446)
Liabilities such as net pension and OPEB liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. The District's net pension and OPEB liabilities are reported in the combined statement of net position.	(5,450,130)
Deferred outflows and inflows of resources related to pension and OPEB plans are related to future periods and, therefore, are not reported in governmental funds. The District's deferred outflows and inflows are reported in the combined statement of net position.	1,811,606
Total net position of governmental activities	$ 2,423,909

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

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, 2018

	Budget		Actual			
	Original Budget	Amended Budget	General Fund	Debt Service Fund	Total Governmental Funds	Over (Under) Budget
REVENUES						
Property taxes	$ 2,874,622	$ 3,079,000	$ 3,121,742	$ --	$ 3,121,742	$ 42,742
State aid incentives and other	137,790	154,639	154,297	--	154,297	(342)
Interest earnings	7,500	10,500	13,873	--	13,873	3,373
Total revenues	3,019,912	3,244,139	3,289,912	--	3,289,912	45,773
EXPENDITURES						
Property and equipment additions:						
Land and buildings	--	6,600	98,155	--	98,155	91,555
Vehicles and fire fighting equipment	11,810	376,822	408,294	--	408,294	31,472
Communication and other equipment	48,000	35,000	4,102	--	4,102	(30,898)
Personnel operating expenses	45,000	45,000	30,858	--	30,858	(14,142)
Administrative expenses:						
Insurance	46,000	47,000	46,978	--	46,978	(22)
Retirement costs	359,057	361,854	360,941	--	360,941	(913)
Legal and accounting	27,500	27,500	18,266	--	18,266	(9,234)
Fire prevention	5,000	2,500	9,975	--	9,975	7,475
Treasurer's expenses	650	500	239	--	239	(261)
Wages, payroll taxes, and insurance	1,790,860	1,728,059	1,670,785	--	1,670,785	(57,274)
Health and safety programs	25,000	21,000	18,056	--	18,056	(2,944)
Other supplies and miscellaneous	32,700	33,250	7,449	--	7,449	(25,801)
Education	11,000	14,756	16,073		16,073	1,317
Operating expenses:						
Utilities	105,000	105,000	103,359	--	103,359	(1,641)
Gasoline and oil	40,000	30,000	30,927	--	30,927	927
Fire school, fire fighting, and training supplies	1,500	1,114	10,008	--	10,008	8,894
Other supplies and miscellaneous	29,000	27,500	36,279	--	36,279	8,779
Repairs and maintenance expenses:						
Vehicles	60,000	85,000	3,821	--	3,821	(81,179)
Buildings	73,000	82,000	84,972	--	84,972	2,972
Communication equipment	1,000	340	163	--	163	(177)
Fire fighting equipment	9,000	5,050	96,325	--	96,325	91,275
Debt service:						
Principal payments	219,834	235,383	--	237,476	237,476	2,093
Interest payments	19,000	19,000	--	18,288	18,288	(712)
Total expenditures	2,959,912	3,290,228	3,056,025	255,764	3,311,789	21,561
Excess (deficiency) of revenues over expenditures	60,000	(46,089)	233,887	(255,764)	(21,877)	24,212
Other financing sources (uses)						
Transfers from other funds	--	--	--	139,626	139,626	139,626
Transfers to other funds	(60,000)	(10,000)	(139,626)	--	(139,626)	(129,626)
Proceeds from issuance of long-term debt	--	--	300,000	--	300,000	300,000
Total other financing sources (uses)	(60,000)	(10,000)	160,374	139,626	300,000	310,000
Net change in fund balances	$ --	$ (56,089)	394,261	(116,138)	278,123	$ 334,212
Fund balances, beginning of year			2,164,884	241,402	2,406,286	
Fund balances, end of year			$ 2,559,145	$ 125,264	$ 2,684,409	

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

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
June 30, 2018

Net change in fund balances - total government funds	$	278,123
Total net position reported for governmental activities in the combined statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However in the combined statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($510,551) exceeded depreciation ($330,647) in the current period.		179,904
Debt service principal payments are reported as a reduction in liabilites in the combined statement of net position, but are reported as expenditures in the fund financial statements because they use current financial resources.		237,476
Proceeds from the issuance of long-term debt is reported as an increase in liabilities in the combined statement of net position, but is reported as income in the fund financial statements because they use current financial resources.		(300,000)
Governmental funds report the District's pension contributions ($250,051) as expenditures, however, in the combined statement of activities, the cost of pension benefits earned, net of employer contributions, is reported as pension expense ($449,022).		(449,022)
Governmental funds report the District's OPEB contributions ($104,475) as expenditures, however, in the combined statement of activities, the cost of OPEB benefits earned, net of employer contributions, is reported as OPEB expense ($38,356).		(38,356)
Change in net position of governmental activities	$	(91,875)

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations

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

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

Management's Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Combined Government-Wide Financial Statements

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

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

Policies specific to the government-wide statements are as follows

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Combined Fund Financial Statements

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

Note 1. Nature of Operations Significant Accounting Policies (Continued)

Budgetary Accounting

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

Cash

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

Account Receivable

Accounts receivable consist mainly of property taxes and other taxes due to the District. An allowance for doubtful accounts is not recorded since all accounts are considered collectible at year end.

Investments

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

Capital Assets and Land

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

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

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

Net Position/Fund Balances

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

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Net Position/Fund Balances (continued)

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

Restricted– Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District had no restricted amounts as of June 30, 2018.

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

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

Nonspendable – These resources include amounts that cannot be spent because they are either not spendable in form or legally or contractually required to be maintained intact. The District's non-spendable funds consisted of prepaid expenses as of June 30, 2018.

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, 2018.

Committed – Amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned – Includes amounts that the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Amounts may be assigned by the Board of Trustees or the member from the Board of Trustees given authority to assign amounts. The District had assigned funds for vehicle replacement, building maintenance, training, equipment, volunteer fund and future payroll costs as of June 30, 2018.

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

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

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Compensated Absences

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

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future years and will not be recognized as an expense or expenditure until then. The District has various items that meet this criterion, including contributions made to the pension plan and OPEB plan during the year ended June 30, 2018 as well as other outflows (see Notes 5 and 6). Deferred inflows of resources represent an acquisition of net position that applies to future years and will not be recognized until then.

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension liability and net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to pensions and the OPEB plan, and pension expense and OPEB expense, information about the fiduciary net position of the County Employees Retirement Systems (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of District employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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.

Note 2. Deposits 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, 2018, all deposits were covered by FDIC insurance or properly executed security agreement.

Investments

As of June 30, 2018, the District's investment balances were as follows:

	Maturity	Amortized Cost	Fair Value
Certificates of deposit:			
Interest rate of 0.90%	September 2018	$ 95,976	$ 95,976
Interest rate of 0.75%	February 2019	46,154	46,154
Interest rate of 1.00%	August 2018	248,000	248,000
Interest rate of 1.75%	January 2019	146,239	146,239
Interest rate of 1.00%	December 2018	245,000	245,000
		$ 781,369	$ 781,369

U.S. GAAP provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices of identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflect a company's own assumptions of market participant valuation (Level 3).

Financial instruments that are subject to fair value measurements are limited to investments. Fair values of these financial instruments have been valued using a market approach and are measured using Level 2 inputs. The fair value of investments approximates its carrying amount due to the short-term nature of these instruments.

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.

Note 2. Deposits and Investments (Continued)

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

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of failure of the counterparty or bank, the District will not be able to recover the value of its investments held in the possession of an outside party. Consistent with the District's investment policy as of June 30, 2018, 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, 2018 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Total assets not being depreciated:				
Fire truck refurbishment in process	$ --	$ 285,684	$ --	$ 285,684
Total assets being depreciated:				
Land and buildings	$ 4,403,771	$ 98,155	$ --	$ 4,501,926
Vehicles and fire fighting equipment	4,558,404	82,173	--	4,640,577
Communications and other equipment	1,081,529	44,539		1,126,068
Total cost	10,043,704	510,551	--	10,554,255
Less accumulated depreciation for:				
Buildings	(2,009,986)	(99,314)	--	(2,109,300)
Vehicles and fire fighting equipment	(3,248,911)	(210,286)	--	(3,459,197)
Communications and other equipment	(1,023,241)	(21,047)		(1,044,288)
Total accumulated	(6,282,138)	(330,647)	--	(6,612,785)
Net book value	$ 3,761,566	$ 179,904	$ --	$ 3,941,470

The net book value of capital assets financed through capital leases was $613,473 at June 30, 2018.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4. Long-Term Debt

Capital Lease Obligations

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

Summary

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

	June 30, 2017	Increases	Decreases	June 30, 2018	Current
Note payable	$ 78,838	$ --	$ (71,515)	$ 7,323	7,323
Capital lease obligations	422,084	300,000	(165,961)	556,123	78,739
Total long-term debt	$ 500,922	$ 300,000	$ (237,476)	$ 563,446	$ 86,062

A summary of the District's long-term debt payments (principal, interest and fees) at June 30, 2018, is as follows:

Fiscal year	November 18, 2012 Interest Rate 2.00% - 2.25%	August 27, 2013 Interest Rate 3.740%	October 30, 2017 Interest Rate 2.890%	Total	Less: Interest and Fees
2019	$ 58,777	$ 7,330	$ 34,759	$ 100,866	$ 14,803
2020	60,522	--	34,759	95,281	12,848
2021	54,284	--	34,758	89,042	10,811
2022	53,047	--	34,759	87,806	8,753
2023	42,169	--	34,758	76,927	6,612
2024-2028	22,222	--	86,896	109,118	8,842
2029-2032	--	--	69,516	69,516	2,441
Total	$ 291,021	$ 7,330	$ 330,205	$ 628,556	$ 65,110

The present value of the minimum debt service payments on the remaining $556,123 capital lease obligations at June 30, 2018, is summarized as follows:

Minimum debt service payments	$ 621,226
Less interest	(65,103)
Present value, debt service payment	$ 556,123

Note 5. Retirement Plans

Pension Plan

Plan Description: The District has elected to participate in the County Employees Retirement System (CERS), pursuant to Kentucky Revised Statute 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). 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. Historical trend information showing CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at 502-696-8800.

Benefits Provided: Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit, or at least 10 years of service and 60 years old. Nonhazardous employees who begin participation after December 31, 2013 must meet the rule of 87 (members age plus years of service credit must equal 87, and member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months of service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. Hazardous employees who begin participation on or after September 1, 2008 receive benefits when they have 25 years of service or the member is age 60, with a minimum of 60 months of service credit. Hazardous employees who begin participation after December 31, 2013 must have 25 years of service or age 60 with at least 60 months of service credit.

Contributions: 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 pension contribution rate for nonhazardous employees was 14.48%, 13.95%, and 12.42% for the years ended June 30, 2018, 2017 and 2016, 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 pension contribution rate for hazardous employees was 22.20%, 21.71%, and 20.26% for the years ended June 30, 2018, 2017 and 2016, respectively.

Note 5. Retirement Plans (Continued)

Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2018, the District reported a liability of $3,982,285 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 0.171812% for hazardous covered employees and .002364% for nonhazardous covered employees.

Pension expense totaled $449,022 for the year ended June 30, 2018. As of June 30, 2018, the District had deferred outflows and inflows of resources related to its pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ 792,306	$ --
Net differences between projected and actual earnings on investments	263,088	227,786
Differences between actual and expected experience	141,162	3,512
Changes in proportion and differences between District's contributions and proportionate share of contributions	52,778	--
District contributions subsequent to the measurement date	250,051	--
	$ 1,499,385	$ 231,298

The District's deferred outflows of resources of $250,051 related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ending June 30, 2019. Other amounts reported as deferred outflows of resources as of June 30, 2018 will be recognized into pension expense (income) as follows:

Note 5. Retirement Plans (Continued)

Pension Plan (continued)

Year Ending June 30,:		
2019	$	428,948
2020		462,128
2021		170,679
2022		(43,719)
	$	1,018,036

Actuarial assumptions: The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to years included in the measurement:

Inflation:	2.30%
Salary increases:	3.05%, average
Investment rate of return:	6.25%

The Mortality Table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Note 5. Retirement Plans (Continued)

Pension Plan (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
	100.00%	

Discount rate: The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease - 5.25%	Current Discount Rate - 6.25%	1% Increase - 7.25%
Net Pension Liability - Hazardous	$ 4,833,024	$ 3,843,913	$ 3,027,052
Net Pension Liability - Nonhazardous	174,517	138,372	108,137
Total Net Pension Liability	$ 5,007,541	$ 3,982,285	$ 3,135,189

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS financial report.

Note 5. Retirement Plans (Continued)

Pension Plan (continued)

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 these plans, employees may defer up to 100% of their compensation after deducting required contributions to the CERS plan. The District does not make matching contributions to these plans.

Note 6. Other Postemployment Benefits

Other Postemployment Benefits Plan

Plan description: County Employees Retirement System consists of two plans, Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The District participates in both the nonhazardous and hazardous plan.

Benefits provided: The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Portion Paid by Insurance Fund	
Years of Service	Paid by Insurance Fund (%)
20 + Years	100.00%
15 - 19 Years	75.00%
10 - 14 Years	50.00%
4 - 9 Years	25.00%
< 4 Years	0.00%

Note 6. Other Postemployment Benefits (Continued)

Other Postemployment Benefits Plan (continued)

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth sodemands.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for either system.

New Accounting Principle

Effective, July 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement requires the liability of employers, such as the District, to employees for net OPEB liability to be measured as the portion of the present value of projected benefit payments to be provided through the OPEB plan to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Net position of the District has been restated for the cumulative effect of the adoption of this statement as follows:

		Government-wide statements
Net pension liability as of July 1, 2017	$	(885,971)
Deferred outflows - District's 2017 OPEB contributions		94,841
Cumulative effect of adoption	$	(791,130)

Contributions: 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 to the KRS Insurance Fund for nonhazardous employees was 4.70%, 4.73%, and 4.64% for the years ended June 30, 2018, 2017 and 2016, respectively.

Note 6. Other Postemployment Benefits (Continued)

Other Postemployment Benefits Plan (continued)

Hazardous covered employees are required to contribute 8.00% of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9.00% of their salary. The District's pension contribution rate for hazardous employees was 9.35%, 9.35%, and 12.69% for the years ended June 30, 2018, 2017 and 2016, respectively. The actuarially determined rates set by the Board for the fiscal years was a percentage of each employee's creditable compensation.

Contributions to the KRS Insurance Fund from the District were $104,475 and $94,841 for the years ended June 30, 2018 and 2017, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2018, the District reported a liability of $1,467,845 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017, using generally accepted actuarial principles. The District's proportion of the net OPEB liability was based on the District's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2018, the District's proportion was 0.171812% for hazardous covered employees and .002364% for nonhazardous covered employees.

For the year ended June 30, 2018, the District recognized OPEB expense of $38,355. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ 534,238	$ - -
Net differences between projected and actual earnings on investments	- -	91,359
Differences between actual and expected experiences	- -	3,442
Changes in proportion and differences between District's contributions and proportionate share of contributions	- -	393
District contributions subsequent to the measurement date	104,475	- -
	$ 638,713	$ 95,194

Note 6. Other Postemployment Benefits (Continued)

Other Postemployment Benefits Plan (continued)

The District's deferred outflows of resources of $104,475 related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources as of June 30, 2018 will be recognized into OPEB expense as follows:

Year Ending June 30,:

2019	$	126,051
2020		126,051
2021		126,051
2022		58,441
2023		1,913
2024		537
	$	439,044

Actuarial assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	28 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate	4.00%
Inflation	3.25%
Salary Increase	4.00%, Average
Investment Rate of Return	7.50%
Healthcare Cost Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

The mortality for active members in RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

Note 6. Other Postemployment Benefits (Continued)

Other Postemployment Benefits Plan (continued)

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
	100.00%	

Discount rate: The discount rate used to measure the total OPEB liability was 5.84% for nonhazardous and 5.96% for hazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the KRS Board's current funding policy, which includes the requirement that each participating employer in KRS contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board of Trustees of KRS. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from KRS. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the KRS's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of KRS's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Note 6. Other Postemployment Benefits (Continued)

Other Postemployment Benefits Plan (continued)

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 5.84% for nonhazardous and 5.96% for hazardous, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84% for nonhazardous and 4.96% for hazardous) or 1-percentage-point higher (6.84% for nonhazardous and 6.96% for hazardous) than the current rate:

	1% Decrease - 4.84% Non-hazardous, 4.96% Hazardous	Current Discount Rate - 5.84% Non-hazardous, 5.96% Hazardous	1% Increase - 6.84% Non-hazardous, 6.96% Hazardous
Net Pension Liability - Hazardous	$ 1,903,425	$ 1,420,321	$ 1,025,063
Net Pension Liability - Nonhazardous	60,472	47,524	36,750
Total Net Pension Liability	$ 1,963,897	$ 1,467,845	$ 1,061,813

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net Pension Liability - Hazardous	$ 1,005,423	$ 1,420,321	$ 1,933,820
Net Pension Liability - Nonhazardous	36,454	47,524	61,916
Total Net Pension Liability	$ 1,041,877	$ 1,467,845	$ 1,995,736

Changes of assumptions: Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total OPEB liability as of June 30, 2017 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

Pension plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 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
2010-2011	0.10	2,333,066,495	194,233,773	4,874,482	2,575,000	2,570,046	1.00
2011-2012	0.10	2,343,155,345	203,354,423	4,641,651	2,621,000	2,584,267	0.99
2012-2013	0.10	2,360,721,217	216,147,725	4,620,529	2,621,000	2,621,898	1.00
2013-2014	0.10	2,392,780,857	224,847,872	4,707,811	2,645,000	2,646,408	1.00
2014-2015	0.10	2,438,782,312	235,174,822	4,684,657	2,665,000	2,711,820	1.02
2015-2016	0.10	2,499,414,920	241,371,693	4,861,541	2,748,000	2,766,126	1.01
2016-2017	0.10	2,640,643,010	250,428,599	4,942,639	2,810,000	2,897,116	1.03
2017-2018	0.10	2,822,920,830	256,125,031	4,956,196	3,079,000	3,121,742	1.01

Fiscal Year	Real Estate Assessed Valuation	Number of Taxpayer Accounts	Average Assessment
2010-2011	2,333,066,495	13,786	169,234
2011-2012	2,343,155,345	13,909	168,463
2012-2013	2,360,721,217	13,935	169,409
2013-2014	2,392,780,857	13,960	171,403
2014-2015	2,438,782,312	14,021	173,938
2015-2016	2,499,414,920	14,136	176,812
2016-2017	2,640,643,010	14,267	185,087
2017-2018	2,822,920,830	14,510	194,550

FERN CREEK FIRE PROTECTION DISTRICT AND FERN CREEK
FIRE PROTECTION DISTRICT HOLDING COMPANY, INC.
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

	June 30, 2017	2016	2015	2014
NON-HAZARDOUS				
District's proportion of the net pension liability	0.002364%	0.002363%	0.002304%	0.002300%
District's proportionate share of net pension liability	$ 138,372	$ 116,344	$ 99,069	$ 73,000
District's covered-employee payroll in year of measurement	$ 57,548	$ 56,369	$ 53,760	$ 51,805
District's proportionate share of the net pension liability as a percentage of its employee-covered payroll	240.45%	206.40%	184.28%	140.91%
Plan Fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%
HAZARDOUS				
District's proportion of the net pension liability	0.171812%	0.169330%	0.167054%	0.170000%
District's proportionate share of net pension liability	$ 3,843,913	$ 2,905,610	$ 2,564,450	$ 1,984,000
District's covered-employee payroll in year of measurement	$ 985,230	$ 916,514	$ 892,260	$ 871,354
District's proportionate share of the net pension liability as a percentage of its employee-covered payroll	390.15%	317.03%	287.41%	227.69%
Plan Fiduciary net position as a percentage of the total pension liability	49.80%	53.95%	57.52%	63.50%

* June 30, 2017, 2016, 2015 and 2014 reflect dates of the actuarial valuation.

FERN CREEK FIRE PROTECTION DISTRICT AND FERN CREEK
FIRE PROTECTION DISTRICT HOLDING COMPANY, INC.
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) PENSION

	June 30,				
	2018	2017	2016	2015	2014
NON-HAZARDOUS					
Contractually required contribution	$ 8,686	$ 8,028	$ 7,001	$ 6,854	$ 7,118
Actual contributions	(8,686)	(8,028)	(7,001)	(6,854)	(7,118)
Contribution deficiency (excess)	$ --	$ --	$ --	$ --	$ --
District's covered employee-payroll	$ 59,988	$ 57,548	$ 56,369	$ 53,760	$ 51,805
Contributions as a percentage of covered payroll	14.48%	13.95%	12.42%	12.75%	13.74%
HAZARDOUS					
Contractually required contribution	$ 241,365	$ 204,758	$ 185,686	$ 184,966	$ 189,694
Actual contributions	(241,365)	(204,758)	(185,686)	(184,966)	(189,694)
Contribution deficiency (excess)	$ --	$ --	$ --	$ --	$ --
District's covered employee-payroll	$ 1,087,229	$ 985,230	$ 916,514	$ 892,260	$ 871,354
Contributions as a percentage of covered-employee payroll	22.20%	20.78%	20.26%	20.73%	21.77%

* June 30, 2018, 2017, 2016, 2015 and 2014 reflect financial reporting dates.

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

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET OPEB LIABILITY

	June 30, 2017
NON-HAZARDOUS	
District's proportion of the OPEB liability	0.002364%
District's proportionate share of net OPEB liability	$ 47,524
District's covered-employee payroll in year of measurement	$ 57,548
District's proportionate share of the net OPEB liability as a percentage of its employee-covered payroll	82.58%
Plan Fiduciary net position as a percentage of the total OPEB liability	52.40%
HAZARDOUS	
District's proportion of the OPEB liability	0.171812%
District's proportionate share of OPEB liability	$ 1,420,321
District's covered-employee payroll in year of measurement	$ 943,151
District's proportionate share of the OPEB liability as a percentage of its employee-covered payroll	150.59%
Plan Fiduciary net position as a percentage of the total OPEB liability	59.00%

* June 30, 2017 reflects the date of the actuarial valuation.

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS) OPEB

	June 30, 2018	June 30, 2017
NON-HAZARDOUS		
Contractually required contribution	$ 2,819	$ 2,722
Actual contributions	(2,819)	(2,722)
Contribution deficiency (excess)	$ - -	$ - -
District's covered employee-payroll	$ 59,988	$ 57,548
Contributions as a percentage of covered payroll	4.70%	4.73%
HAZARDOUS		
Contractually required contribution	$ 101,656	$ 92,119
Actual contributions	(101,656)	(92,119)
Contribution deficiency (excess)	$ - -	$ - -
District's covered employee-payroll	$ 1,087,229	$ 985,230
Contributions as a percentage of covered-employee payroll	9.35%	9.35%

* June 30, 2018 and 2017 reflect financial reporting dates.

Jones, Nale & Mattingly PLC

JNM

Jones, Nale & Mattingly PLC

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Fern Creek Fire Protection District and Fern Creek Fire Protection District Holding Company, Inc. (the District), as of and for the year ended June 30, 2018, and the related notes to the combined financial statements, and have issued our report thereon dated October 3, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Certified Public Accountants and Advisors

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
October 3, 2018