

HEBRON FIRE PROTECTION DISTRICT

FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

HEBRON FIRE PROTECTION DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees of
Hebron Fire Protection District
Hebron, Kentucky**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Hebron Fire Protection District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Hebron Fire Protection District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

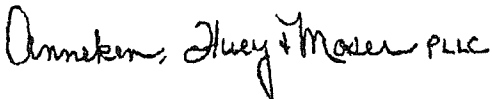
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability and related ratios, schedule of required contributions, budgetary comparison schedule, and notes to required supplementary information on pages 3 through 7, page 26, page 27, page 28 and page 29, respectively, 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 December 19, 2016 on our consideration of the Hebron Fire Protection District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Hebron Fire Protection District's internal control over financial reporting and compliance.



Fort Wright, Kentucky
December 19, 2016



HEBRON

Fire Protection District

3120 North Bend Road • P.O. Box 24 • Hebron, Kentucky 41048 • (859) 586-9009

Management's Discussion and Analysis

As management of the Hebron Fire Protection District, we offer readers of the Hebron Fire Protection District's financial statements this narrative overview and analysis of the financial activities of the Hebron Fire Protection District for the fiscal year ended June 30, 2016.

Financial Highlights

- The assets and deferred outflows of resources of the Hebron Fire Protection District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1,823,088. Of this amount, (\$978,604) may be used to meet the District's ongoing obligations.
- The District's total net position decreased by (\$1,359,018).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Hebron Fire Protection District's basic financial statements. The Hebron Fire Protection District's basic financial statements comprise two components: 1) the combined Government-wide and Fund financial statements, and 2) Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Combined Government-Wide and Fund Financial Statements

These combined statements are intended to give an overall view of the financial condition of the Hebron Fire Protection District and the fund activity of the Governmental Fund. The Hebron Fire Protection District has a single governmental fund.

The column for the statement of net position presents information on all of the Hebron Fire Protection District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Hebron Fire Protection District is improving or deteriorating.

The column for the statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected tax or EMS revenue and unpaid purchases).

The column for the general fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Hebron Fire Protection District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with related legal requirements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements.

Other Information

In addition to the financial statements and the accompanying notes to the financial statements, this report also presents schedules that reflect actual versus budgeted expenditures.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Hebron Fire Protection District, assets exceeded liabilities by \$1,823,088 at the close of the most recent fiscal year.

Net Position

	Governmental-Type	
	Activities	
	2016	2015
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 4,004,847	\$ 3,994,656
Certificates of Deposits	1,167,814	1,163,816
Annuities	432,090	418,699
Accounts Receivable	66,926	295,636
Prepaid items	33,903	48,305
Capital assets, net of accumulated depreciation	2,801,692	2,690,381
TOTAL ASSETS	<u><u>\$ 8,507,272</u></u>	<u><u>\$ 8,611,493</u></u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	\$ 1,260,859	\$ 804,487
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 1,260,859</u></u>	<u><u>\$ 804,487</u></u>

	Governmental-Type Activities	
	2016	2015
LIABILITIES		
Accounts payable	\$ 6,520	\$ 6,191
Accrued payroll and taxes	37,541	26,496
Long term debt:		
Net pension liability	7,052,860	5,310,224
Compensated absences	455,599	367,599
TOTAL LIABILITIES	<u>\$ 7,552,520</u>	<u>\$ 5,710,510</u>
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	\$ 392,523	\$ 523,364
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 392,523</u>	<u>\$ 523,364</u>
NET POSITION		
Net investment in capital assets	\$ 2,801,692	\$ 2,690,381
Unrestricted	(978,604)	491,725
TOTAL NET POSITION	<u>\$ 1,823,088</u>	<u>\$ 3,182,106</u>

At the end of the current fiscal year, the Hebron Fire Protection District reported positive balance in net investment in capital assets and a negative balance in unrestricted net position. They were able to report positive balances in the both categories prior year. There was a decrease of \$1,359,018 in unrestricted net position reported in connection with the Hebron Fire Protection District's governmental activities. These amounts represent the various funds unrestricted for operations and ongoing capital needs. Also, the District implemented GASB Statement 68 prior year. With the new reporting change, the District is allocated its proportionate share of the County Employees Retirement System net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. In prior year, a restatement to record the effects of the new reporting guidance decreased net position by \$5,133,864. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Hebron Fire Protection District's management.

Change in Net Position

	Governmental-Type Activities	
	<u>2016</u>	<u>2015</u>
REVENUES		
Tax revenue	\$ 4,489,498	\$ 4,581,607
Intergovernmental revenue	151,146	142,050
Charges for services	324,956	300,689
Miscellaneous income	1,781	1,273
Interest	23,135	15,176
TOTAL REVENUES	<u>4,990,516</u>	<u>5,040,795</u>
EXPENSES		
Current		
Loss on disposal	106,931	-
Operating expense	765,905	673,236
Payroll and employee benefits	5,476,698	3,932,199
TOTAL EXPENSES	<u>6,349,534</u>	<u>4,605,435</u>
EXCESS OF REVENUES OVER EXPENSES	<u>(1,359,018)</u>	<u>435,360</u>
NET CHANGES IN NET POSITION	(1,359,018)	435,360
NET POSITION, BEGINNING OF YEAR	3,182,106	7,880,610
PRIOR PERIOD ADJUSTMENT	-	(5,133,864)
NET POSITION, END OF YEAR	<u>\$ 1,823,088</u>	<u>\$ 3,182,106</u>

The Statement of Activities reflects a (\$1,359,018) excess of expenses over revenues. Depreciation in the amount of \$306,006 was included in the Statement of Activities. As stated above, the decrease is attributed to the increase in retirement expense due to the implementation of GASB Statement 68.

The tax rates remained unchanged from the prior year. The tax rate was \$0.122 per \$100 assessed valuation for real estate and \$0.122 per \$100 of assessed valuation for personal property. Fire Protection Districts with Emergency Medical Service Ambulances, like Hebron Fire Protection District, are authorized to have a tax rate as high as \$.20 per \$100 of assessed valuation.

Capital Assets

The Hebron Fire Protection District's investment in capital assets for its governmental type activities as of June 30, 2016 amounted to \$6,573,424. This investment in capital assets includes land, buildings, improvements and fire, rescue and medical equipment. There was an increase of 4.80% in the total investment in capital assets for the current year.

	<u>2016</u>	<u>2015</u>
Apparatus	\$ 2,654,594	\$ 2,411,795
Building	2,879,941	2,879,941
Equipment	1,007,392	946,595
Furniture and Fixtures	31,497	36,631
Total	<u>\$ 6,573,424</u>	<u>\$ 6,274,962</u>

Additional information on the Hebron Fire Protection District's capital assets can be found in Note C.

Long-term Debt

At the end of the 2016 fiscal year, the Hebron Fire Protection District had total debt outstanding of \$7,508,459. The District's debt accounted for amounts for net pension liability and compensated absences in the long-term debt number.

	<u>2016</u>	<u>2015</u>
Net pension liability	\$ 7,052,860	\$ 5,310,224
Compensated absences	455,599	567,599
	<u>\$ 7,508,459</u>	<u>\$ 5,877,823</u>

Additional information on the Hebron Fire Protection District long-term debt can be found in Note D.

Budget

There were five changes to the original adopted budget. The budget was amended for: the price decrease for the purchase of a generator and ultrasound, and the purchase of ALS/BLS equipment, a new patient cot and a replacement hose. These amendments increased expenses by \$32,259.

Actual fiscal year revenues were more than budgeted amounts by \$96,067. Actual fiscal year expenditures were less than budgeted amounts by \$245,720. The actual net of actual revenues over expenditures from budget was \$346,377 for the fiscal year. The District expects the collection of property taxes, its major source of revenue, to increase next fiscal year. The District also expects an overall decrease in total expenses.

Requests for Information

This financial report is designed to provide a general overview of the Hebron Fire Protection District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Hebron Fire Protection District at 3120 North Bend Road, Hebron, KY 41048.

HEBRON FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
June 30, 2016

	<u>General Fund</u>	<u>Adjustments (Note G)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 4,004,847	\$ -	\$ 4,004,847
Certificate of deposits	1,167,814	-	1,167,814
Annuities	432,090	-	432,090
Accounts receivable	66,926	-	66,926
Prepaid items	33,903	-	33,903
Capital assets, net of accumulated depreciation	-	2,801,692	2,801,692
TOTAL ASSETS	<u>5,705,580</u>	<u>2,801,692</u>	<u>8,507,272</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	-	1,260,859	1,260,859
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>1,260,859</u>	<u>1,260,859</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,705,580</u>	<u>\$ 4,062,551</u>	<u>\$ 9,768,131</u>
LIABILITIES			
Accounts payable	\$ 6,520	\$ -	\$ 6,520
Accrued payroll and taxes	37,541	-	37,541
Long-term obligations			
Net pension liability	-	7,052,860	7,052,860
Compensated absences	-	455,599	455,599
TOTAL LIABILITIES	<u>44,061</u>	<u>7,508,459</u>	<u>7,552,520</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	-	392,523	392,523
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>392,523</u>	<u>392,523</u>
FUND BALANCES			
Nonspendable:			
Prepaid items	33,903	(33,903)	
Assigned:			
Capital projects	500,000	(500,000)	
Unassigned	5,127,616	(5,127,616)	
TOTAL FUND BALANCES	<u>5,661,519</u>	<u>(5,661,519)</u>	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 5,705,580</u>	<u>\$ 2,239,463</u>	
NET POSITION			
Net investment in capital assets		\$ 2,801,692	\$ 2,801,692
Unrestricted		(978,604)	(978,604)
TOTAL NET POSITION		<u>\$ 1,823,088</u>	<u>\$ 1,823,088</u>

See accompanying notes to financial statements.

HEBRON FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE/NET POSITION
For the Year Ended June 30, 2016

	General Fund	Adjustments (Note G)	Statement of Activities
REVENUES			
Tax revenue	\$ 4,489,498	\$ -	\$ 4,489,498
Intergovernmental revenue	151,146	-	151,146
Charges for services	324,956	-	324,956
Miscellaneous income	1,781	-	1,781
Interest	23,135	-	23,135
TOTAL REVENUES	4,990,516	-	4,990,516
EXPENDITURES			
Current			
Administrative expense	72,282	-	72,282
Personnel costs	4,233,275	1,243,423	5,476,698
Contracted services	244,552	-	244,552
Loss on disposal	-	106,931	106,931
Materials and supplies	143,065	-	143,065
Depreciation	-	306,006	306,006
Capital outlay:			
Building and equipment	528,838	(528,838)	-
TOTAL EXPENDITURES	5,222,012	1,127,522	6,349,534
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(231,496)	(1,127,522)	(1,359,018)
OTHER FINANCING SOURCES			
Proceeds from disposal	4,590	(4,590)	-
TOTAL OTHER FINANCING SOURCES	4,590	(4,590)	-
NET CHANGES IN FUND BALANCE AND NET POSITION	(226,906)	(1,132,112)	(1,359,018)
FUND BALANCE/NET POSITION, BEGINNING OF YEAR	5,888,425	(2,706,319)	3,182,106
FUND BALANCE/NET POSITION, END OF YEAR	\$ 5,661,519	\$ (3,838,431)	\$ 1,823,088

See accompanying notes to financial statements.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hebron Fire Protection District is a governmental unit, which was formed in accordance with Kentucky Revised Statute 75. The purpose of the District is to provide fire protection for the Hebron area located in Boone County, Kentucky. The District is a governmental unit.

The District is the primary, special purpose government responsible for all fire protection within its service areas. As a result, all significant activities have been included in the government-wide financial statements. The District's financial statements represent those of a stand-alone government, as there are no component units.

The accounting policies of the Hebron Fire Protection District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

Fund Accounting

The financial statement presentation for the District includes separate columns reporting a statement of net position and a statement of activities. These statements present a government-wide presentation of all activities of the District. A separate governmental funds column in the financial statements presents the governmental funds balance sheet and the statement of revenues, expenditures and changes in fund balance.

Major Funds

The District reported the following governmental fund in the accompanying financial statements:

General Fund – The General Fund is the general operating fund of the District. It is to be used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this fund are property taxes, grants, EMS billings, and interest income. Expenditures are made for general expenses not required to be accounted for in another fund.

Basis of Accounting, Measurement Focus, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Furthermore, both long term and current assets and liabilities are included in the statement of net position.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for governmental fund revenues. Expenditures are recorded when the related fund liability is incurred.

Budget

Once approved, the Board of Directors may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenditures.

Revenue

The District's primary source of revenue is from property and franchise taxes levied by the District and collected by Boone County Sheriff's office. The portion payable to the District is then automatically deposited with the District. Property taxes are levied as of January 1 on property assessed as of the same date.

Prepaid items

Prepaid items record payments to vendors that benefit future reporting periods, such as insurance.

Receivables

No allowance for doubtful accounts is required.

Capital Assets

Capital assets are recorded at cost net of accumulated depreciation in the government-wide statement of net position. The District defines capital assets as assets with an initial, individual cost of more than \$1,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets of the District are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Apparatus	7-20
Building	30
Equipment	3-10
Furniture and fixtures	10

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Income Tax Status

The District is exempt from federal income taxes under Section 501(c) (4) of the Internal Revenue Code.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amount reflected in the balance sheet for cash and certificates of deposit approximates fair value due to the short maturity of the instruments.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period. Payments of principal and interest are reported as expenditures.

Net Position

Net position is the residual between assets, deferred outflows of resources and liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt, are capital assets less accumulated depreciation, and any outstanding debt related to acquisition, construction, or improvement of those assets.

In the fund financial statements, government funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section of deferred outflows of resources. This separate financial element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District has one item that meets these criteria, contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District has one item that meets these criteria, deferrals of pension expense that result from the implementation of GASB Statement 68.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The District's employer contributions are recognized when due and the District has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the term of CERS. Investments are reported at fair value.

Subsequent Events

Subsequent events have been evaluated through December 19, 2016, the date the financial statements were available to be issued.

Fire Taxation

Property taxes are assessed as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable on or before December 31. The taxpayer may, however, receive a 2% discount if the taxes are paid by early November. All unpaid taxes become delinquent January 1 of the following year. The property taxes are billed and collected by the Boone County Sheriff. The portion payable to the District is then forwarded to the District on a monthly basis. The District records tax revenue once it has been collected by the County Sheriff.

A majority of the property taxes are received during the month of November each year. The County Sheriff withholds a portion of the property taxes as a collection fee.

The District's property tax rate is set annually by the District's Board of Trustees. The real estate property tax rate was \$0.122 per \$100 of valuation and tangible rate was \$0.122 per \$100 of valuation for the fiscal year ending June 30, 2016.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Property taxes on motor vehicles are billed and collected by the Boone County Clerk. These taxes are levied on the first day of the motor vehicle owner's birth month and are due and payable on or before the last day of that month. All unpaid taxes become delinquent on the first day of the subsequent month. The portion payable is forwarded to the District on a monthly basis. The taxes are collected evenly throughout the year. The County Clerk withholds a portion of the motor vehicles taxes collected as a collection fee.

Out-of-county motor vehicle taxes as well as omitted tangible property taxes are collected by the Kentucky Department of Revenue and forwarded to the District on a quarterly basis. These tax collections are unpredictable. The Kentucky Department of Revenue withholds a portion of the taxes collected as a public service charge back fee.

NOTE B - CASH AND INVESTMENTS

Cash included demand deposits as well as certificates of deposit.

Kentucky Revised Statute 66.480 authorizes the District to invest in the following with certain exceptions:

1. Obligations of the United States and of its agencies and instrumentalities.
2. Certificate of deposit.
3. Bankers' acceptances.
4. Commercial paper.
5. Bonds of other states or local governments.
6. Mutual funds.

Investment Policy

The District's investment policy allows investments in the form of certificates of deposit at local banks and fixed index annuities guaranteed by life insurance companies, which offer the greatest interest rates. The policy falls within the guidelines of Kentucky Revised Statute 66.480.

Interest Rate Risk – In accordance with District policy, interest rate risk is limited by investing in only certificates of deposit with the highest rate of return and with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure the preservation of capital in its portfolio.

Concentration of Credit Risk – The District has no policy which limits the concentration of credit risk.

Custodial Credit Risk - For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law the depository has pledged securities, in conjunction with the FDIC insurance, in an amount at least equal to the amount of the districts funds on deposit at all times.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE B - CASH AND INVESTMENTS (continued)

Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of \$5,356,971 at June 30, 2016, that was insured by depository insurance or secured with collateral held by the financial institution in the District's name.

NOTE C – CHANGE IN CAPITAL ASSETS

A summary of changes in land, building and equipment follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Apparatus	\$ 2,411,795	\$ 405,962	\$ (163,163)	\$2,654,594
Building	2,879,941	-	-	2,879,941
Equipment	946,595	122,876	(62,079)	1,007,392
Furniture and fixtures	36,631	-	(5,134)	31,497
	<u>6,274,962</u>	<u>528,838</u>	<u>(230,376)</u>	<u>6,573,424</u>
Less accumulated depreciation:				
Apparatus	1,457,137	99,272	(55,067)	1,501,342
Building	1,413,436	97,887	-	1,511,323
Equipment	688,523	105,369	(58,959)	734,933
Furniture and fixtures	25,485	3,478	(4,829)	24,134
	<u>3,584,581</u>	<u>306,006</u>	<u>(118,855)</u>	<u>3,771,732</u>
Capital assets, net	<u>\$ 2,690,381</u>	<u>\$ 222,832</u>	<u>\$ (111,521)</u>	<u>\$2,801,692</u>

NOTE D - LONG-TERM OBLIGATIONS

The District allows employees to accumulate unused paid time off to a maximum of 2,080 hours and 2,880 hours for employees who are 40 and 56 Regular Full Time Employees (RFTE), respectively. Upon termination, accumulated sick leave is forfeited and any accumulated paid time off will be paid to the employee. As of June 30, 2016 the liability for accrued paid time off was \$455,599.

With the new reporting changes, the District is allocated its proportionate share of the CERS net pension liability. As of June 30, 2016, the net pension liability was \$7,052,860.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE D - LONG-TERM OBLIGATIONS (continued)

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2016:

	Beginning Balance July 1, 2015	Issued/ Addition	Retired	Ending Balance June 30, 2016
Net pension liability	5,310,224	1,742,636	-	7,052,860
Compensated absences	367,599	88,000	-	455,599
	<u>\$ 5,677,823</u>	<u>\$ 1,830,636</u>	<u>\$ -</u>	<u>\$ 7,508,459</u>

NOTE E – DONATED SERVICES

The District does not record the donated services of volunteers.

NOTE F – EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System (CERS)

District employees who work at least 100 hours per month may participate in the County Employees Retirement System (CERS). Under the provision of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems (KRS), 1260 Louisville Road, Frankfort, KY 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the state legislature.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE F – EMPLOYEE RETIREMENT SYSTEM – (continued)

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported on that schedule:

Method and assumptions used to calculate contributions

Actuarial cost method	Entry age
Amortization cost method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Non-hazardous Contributions – For the year ended June 30, 2016, plan members were required to contribute 5% or 6% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. For the year ended June 30, 2016, participating employers contributed 17.06% of each employee’s creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings. Contributions to the pension plan from the District were \$13,817 for the year ended June 30, 2016.

Hazardous Contributions – For the year ended June 30, 2016, plan members were required to contribute 8% or 9% of their creditable compensation depending on their date of hire. The state was required to contribute at an actuarially determined rate. For the year ended June 30, 2016, participating employers contributed 32.95% of each employee’s creditable compensation, determined by an actuary. Administrative costs of KRS are financed through employer contributions and investment earnings. Contributions to the pension plan from the District were \$828,074 for the year ended June 30, 2016.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE F – EMPLOYEE RETIREMENT SYSTEM – (continued)

At June 30, 2016, the District reported a liability of \$7,052,860 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating CERS employers, actuarially determined. At June 30, 2015, the District’s proportion was 0.00269% for non-hazardous and 0.45190% for hazardous.

For the year ended June 30, 2016, the District recognized pension expense of \$1,997,314. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Hazardous		Non-Hazardous	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 150,670	\$ -	\$ 962	\$ -
Changes of assumptions	599,479	-	11,672	-
Net difference between projected and actual earnings on plan investments	43,565	-	1,038	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	178,788	-	2,709	-
Employer contributions subsequent to the Measurement Date	-	-	-	-
Total	\$ 972,502	\$ -	\$ 16,381	\$ -

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE F – EMPLOYEE RETIREMENT SYSTEM – (continued)

The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Amounts to be recognized in Fiscal Years Following the Reporting Date	
	Hazardous	Non-Hazardous
Year ended June 30:		
2017	114,627	1,753
2018	114,627	1,753
2019	114,627	1,753

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

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 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for period after disability retirement. 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.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE F – EMPLOYEE RETIREMENT SYSTEM – (continued)

Long-term Rate of Return – The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. 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 capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful if setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19	1.50
Real Return (Diversified Inflation Strategies)	10	3.50
Real Estate	5	4.50
Absolute Return (Diversified Hedge Funds)	10	4.25
Private Equity	10	8.50
Cash Equivalent	2	-0.25
Total	<u>100%</u>	

Discount Rate – the discount used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE F – EMPLOYEE RETIREMENT SYSTEM – (continued)

Sensitivity Analysis – The following presents the net pension liability of the District, calculated using the discount rate of percent, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate for non-hazardous and hazardous:

	1% Decrease 6.50%	Hazardous Current Discount Rate 7.50%	1% Increase 8.50%
District's net pension liability	\$ 8,879,781	\$ 6,937,107	\$ 5,327,633

	1% Decrease 6.50%	Non-Hazardous Current Discount Rate 7.50%	1% Increase 8.50%
District's net pension liability	\$ 147,651	\$ 115,753	\$ 88,258

Pension Plan Fiduciary Net Position – The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan’s fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

Insurance Benefits

Plan Description – The Kentucky Retirement Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KERS, CERS, and SPRS. The Fund pays a prescribed contribution for the whole or partial payment of required premiums to purchase hospital and medical insurance. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty.

Insurance Benefits – For members participating prior to July 1, 2013, the amount of contribution paid for hospital and medical insurance is based on years of service and respective percentages of the maximum contribution as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
20 or more	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE F – EMPLOYEE RETIREMENT SYSTEM – (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 ten 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 maximum dollar amount. Upon death of 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 based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of the Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Insurance Contributions – In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method with a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increase under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve a target rate for the full entry age normal funding within 20 years.

KRS commenced self-funding of healthcare benefits for its Medicare eligible retirees on January 1, 2006. A self-funded plan is one in which KRS assumes the financial risk for providing healthcare benefits to its retirees. The self-funded plan pays for claims out-of-pocket as they are presented instead of paying a pre-determined premium to an insurance carrier for a fully-insured plan. KRS funds the risk of its self-insured program directly from its insurance assets.

On August 6, 2012, the board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE G – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The financial statement for the governmental fund balance sheet and statement of net position includes an adjustments column representing reconciliation between fund balances reported in the fund financial statement and net position reported in the government-wide statement. The details of the reconciling items are as follows:

When capital assets (land, buildings, and other capital assets) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the District as a whole.

Capital assets, being depreciated:

Apparatus	\$ 2,654,594
Building	2,879,941
Equipment	1,007,392
Furniture and fixtures	31,497
Accumulated depreciation	<u>(3,771,732)</u>
 Total capital assets, being depreciated	 <u><u>\$ 2,801,692</u></u>

Deferred outflows of resources are not reported in the governmental funds, but are reported in the statement of net position.

Deferred outflows of resources	<u><u>\$ 1,260,859</u></u>
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Compensated absences are not reported in the governmental funds, but are reported in the statement of net position.

Compensated absences	<u><u>\$ 455,599</u></u>
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Net pension liability and deferred inflows of resources are not reported in the governmental funds, but are reported in the statement of net position.

Net pension liability	<u><u>\$ 7,052,860</u></u>
Deferred inflows of resources	<u><u>\$ 392,523</u></u>

HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE G – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (continued)

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The financial statement for the governmental fund statement of revenues, expenditures, and changes in fund balances and statement of activities includes an adjustments column representing a reconciliation between net changes in fund balances and changes in net position of reported in the government-wide statement. Details of the reconciling items are as follows:

When capital assets are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decrease by the amount of depreciation expense charged for the year.

Depreciation	<u>\$ 306,006</u>
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Changes in compensated absences and net pension liability do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Payroll	\$ 88,000
Retirement expense	<u>1,674,620</u>
	<u>\$ 1,762,620</u>

Capital outlay is shown as expenditure in the governmental funds statement.

Capital outlay	<u>\$ (528,838)</u>
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Loss on disposal is shown as expenditure on the statement of activities.

Loss on disposals	<u>\$ 106,931</u>
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Proceeds from disposal are shown as another financing source in the governmental funds statements.

Proceeds from disposal	<u>\$ (4,590)</u>
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HEBRON FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE H – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters, for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage in fiscal year 2016.

NOTE I – FUND BALANCE REPORTING

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable* fund balance includes amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
2. *Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
3. *Committed* fund balance classification includes amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint,
4. *Assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

There are no policies that exist with regards to fund balances.

REQUIRED SUPPLEMENTARY INFORMATION

HEBRON FIRE PROTECTION DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2016

	Hazardous		Non-Hazardous	
	2016*	2015*	2016*	2015*
District's proportion of the net pension liability (%)	0.451900%	0.434862%	0.002690%	0.002587%
District's proportion of the net pension liability (\$)	\$ 6,937,107	\$ 5,226,286	\$ 115,753	\$ 83,938
District's covered-employee payroll	\$ 2,370,187	\$ 2,217,629	\$ 62,814	\$ 59,354
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	292.68%	235.67%	184.28%	141.42%
Plan fiduciary net position as a percentage of the total pension liability**	57.52%	63.46%	59.97%	66.80%

*The amounts presented were determined as of the prior fiscal year ending June 30.

** This will be the same percentage for all participant employers in the CERS plan.

HEBRON FIRE PROTECTION DISTRICT
SCHEDULE OF REQUIRED CONTRIBUTIONS
 June 30, 2016

	Hazardous		Non-Hazardous	
	2016	2015	2016	2015
Contractually required contribution	\$ 828,074	\$ 793,177	\$ 13,817	\$ 11,310
Contributions in relation to the contractually required contribution	828,074	793,177	13,817	11,310
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 2,513,123	\$ 2,311,795	\$ 80,991	\$ 64,007
Contributions as a percentage of covered-employee payroll	32.95%	34.31%	17.06%	17.67%

HEBRON FIRE PROTECTION DISTRICT
BUDGETARY COMPARISON SCHEDULE
June 30, 2016

	Budgetary Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Property and franchise taxes	\$ 4,403,180	\$ 4,403,180	\$ 4,489,498	\$ 86,318
Interest	19,000	19,000	23,135	4,135
EMS billings	319,776	319,776	324,956	5,180
Intergovernmental revenue	152,493	152,493	151,146	(1,347)
Miscellaneous income	-	-	1,781	1,781
TOTAL REVENUES	4,894,449	4,894,449	4,990,516	96,067
EXPENDITURES				
Administration	80,750	80,750	72,282	8,468
Personnel costs	4,388,843	4,388,843	4,233,275	155,568
Contracted services	258,700	258,700	244,552	14,148
Materials and supplies	166,120	166,120	143,065	23,055
Capital outlay:				
Building and equipment	541,060	573,319	528,838	44,481
TOTAL EXPENDITURES	5,435,473	5,467,732	5,222,012	245,720
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	(541,024)	(573,283)	(231,496)	341,787
OTHER FINANCING SOURCES				
Proceeds from disposals	-	-	4,590	4,590
TOTAL OTHER FINANCING SOURCES	-	-	4,590	4,590
NET CHANGES IN FUND BALANCE AND NET POSITION				
	<u>\$ (541,024)</u>	<u>\$ (573,283)</u>	(226,906)	<u>\$ 346,377</u>
FUND BALANCE/NET POSITION, BEGINNING OF YEAR			<u>5,888,425</u>	
FUND BALANCE/NET POSITION, END OF YEAR			<u>\$ 5,661,519</u>	

HEBRON FIRE PROTECTION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

Changes of benefit terms – The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for member whose participation date is on or after January 1, 2014

Changes of assumption – The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015

- The assumed investment rate of return decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for period after disability retirement. 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.
- The assumed rate of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

HEBRON FIRE PROTECTION DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

Method of assumptions used in the calculation of actuarially determined contributions – The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported on that schedule:

Actuarial cost method	Entry age
Amortization cost method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation



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

**To the Board of Trustees of
 Hebron Fire Protection District
 Hebron, Kentucky**

We have audited, in accordance with the 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 financial statements of the governmental activities of Hebron Fire Protection District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which comprise the District's basic financial statements and have issued our report thereon dated December 19, 2016.

Internal Control Over Financial Reporting

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

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 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. We did identify certain deficiencies in internal control, as described below, that we consider to be significant deficiencies.

The District does not have sufficient, capable, expertise to prepare financial statements or the footnote disclosures required in GAAP-basis financial statements.

Condition: The District's system of internal control does not include controls related to the preparation of complete, external, government-wide GAAP-basis, annual financial statements, including footnote disclosures.

Criteria: A complete system of internal control would extend to the annual financial statements prepared for external reporting purposes.

Effect: Annual financial statements prepared are currently only useful for internal reporting.

Recommendation: The District should consider whether the benefit derived from expanding the system of internal control exceeds the costs involved.

Auditee's Response: The District does not possess the audit and accounting skills necessary to prepare the footnotes disclosures required by government-wide GAAP basis financial statements. The District believes the cost of acquiring such skills exceeds the benefit of doing so. The District has engaged Anneken, Huey & Moser, PLLC to draft the financial statements, supplementary information, and related notes. However, the District remains responsible for making all management decisions and performing all management functions relating to the financial statements, supplementary financial information, and related notes and for accepting full responsibility for such decisions. The District has acknowledged in the management representation letter that they have reviewed and approved the financial statements, supplementary financial information, and related notes prior to their issuance and have accepted responsibility for them. Further, the District has designated an individual with suitable skill, knowledge, or experience to oversee any such services provided and for evaluating the adequacy and results of those services and accepting responsibility for them.

Compliance and Other Matters

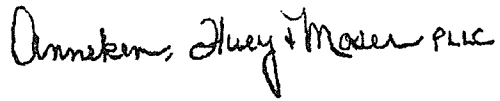
As part of obtaining reasonable assurance about whether Hebron Fire Protection District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

Hebron Fire Protection District's Response to Findings

The District's response to the findings identified in our audit is described above. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope our testing of internal control and compliance and the results of that testing, and not to provide and 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.

A handwritten signature in black ink that reads "Anneken, Huey & Moser PLLC". The signature is written in a cursive, flowing style.

ANNEKEN, HUEY & MOSER, PLLC

Ft. Wright, KY 41011

December 19, 2016