HEBRON FIRE PROTECTION DISTRICT

June 30, 2017

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT INCLUDING SUPPLEMENTARY INFORMATION

HEBRON FIRE PROTECTION DISTRICT
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VonLehman
CPA & ADVISORY FIRM

INDEPENDENT AUDITORS' REPORT

Board of Trustees of
Hebron Fire Protection District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hebron Fire Protection District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively 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.

Auditors' 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 auditors' 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hebron Fire Protection District as of June 30, 2017, 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.

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Emphasis of Matter

As discussed in the notes to the financial statements, the previously issued financial statements for the year ended June 30, 2016 have been restated for the correction of material misstatements. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability, and schedule of the District's contributions on pages 1 – 6, and 30 – 32, 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 February 12, 2018, on our consideration of the Hebron Fire Protection District 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 Hebron Fire Protection District's internal control over financial reporting and compliance.

VonLehman & Company Inc.

Fort Wright, Kentucky
February 12, 2018

HEBRON FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED

Our discussion and analysis of the Hebron Fire Protection District's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the District's basic financial statements that begin on page 7.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (on pages 7 and 8) provide information about the activities of the District as a whole, and present a fair view of the District's finances. Fund financial statements start on page 9. For government activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2017 are as follows:

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $2,063,703 (net position).
- The District's total net position decreased by $438,484.
- As of the close of the current fiscal year, the District's governmental fund reported an ending fund balance of $6,092,641, an increase of $426,641. $6,068,042 is available for spending at the District's discretion (unassigned fund balance).
- The District's total compensated absences decreased by $43,057 (9%) during the current year.
- The District's cash and cash equivalents increased by $444,443, from $4,004,847 at June 30, 2016 to $4,449,290 at June 30, 2017.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 District is improving or deteriorating.

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.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include fire. Capital assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund Financial Statements

A 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 District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 9 through 12 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 through 29 of this report.

Government-Wide Financial Analysis

The perspective of the statement of net position is of the District as a whole. Table 1 provides a summary of the District's net position for 2017 compared to 2016:

Table 1
Net Position

	Governmental Activities 2017	Governmental Activities 2016 (As Restated)
Assets		
Current and Other Assets	$ 6,164,623	$ 5,710,061
Noncurrent Assets, Net	2,524,324	2,801,692
Total Assets	8,688,947	8,511,753
Deferred Outflows of Resources	2,350,254	1,900,624
Liabilities		
Current and Other Liabilities	90,543	44,061
Noncurrent Liabilities	8,884,778	7,473,606
Total Liabilities	8,975,321	7,517,667
Deferred Inflows of Resources	177	392,523
Net Position		
Net Investment in Capital Assets	2,524,324	2,801,692
Unrestricted	(460,621)	(299,505)
Total Net Position	**$ 2,063,703**	**$ 2,502,187**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately $2.1 million as of June 30, 2017.

A portion of the District's net position reflects its investment in capital assets (e.g. land, buildings, improvements, infrastructure, vehicles, equipment, and furniture and fixtures); less any related debt used to acquire those assets that are still outstanding. These assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions, including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Total assets and deferred outflows of resources increased by approximately $627,000. Equity in cash and cash equivalents, prepaid expenses, and receivables increased by approximately $455,000. Capital assets decreased by approximately $277,000. Deferred outflows of resources increased by approximately $450,000. This activity is partially offset by an increase in accounts payable and other liabilities of approximately $46,000, and an increase in long-term liabilities and compensated absences of approximately $1.4 million. Additionally, deferred inflows of resources decreased by approximately $392,000. This resulted in a decrease in net position of approximately $438,000.

Table 2 reflects the change in net position for fiscal years 2017 and 2016.

Table 2
Change in Net Position

	Governmental Activities Years Ended June 30,	
	2017	**2016 (As Restated)**
Revenues		
General Revenues		
Taxes	$ 4,710,860	$ 4,489,498
Earnings on Investments	20,498	23,135
Gain on Sale of Capital Assets	5,314	-
Miscellaneous	3,575	1,781
Total General Revenues	4,740,247	4,514,414
Program Revenues		
Charges for Service	316,598	324,956
Operating Grant and Contributions	168,453	155,627
Total Program Revenues	485,051	480,583
Total Revenues	5,225,298	4,994,997
Program Expenses		
Fire Including Pension Expense	5,370,603	5,368,910
Depreciation	293,179	306,006
Total Program Expenses	5,663,782	5,674,916
Change in Net Position	**$ (438,484)**	**$ (679,919)**

The District's Funds

The District's governmental fund is accounted for using the modified accrual basis of accounting. The governmental fund had revenues and other financing sources of approximately $5.2 million, and expenditures and other financing uses of approximately $4.8 million. Revenues increased by 4.7%, while expenses decreased by 8.0%. The decrease in expenses is largely due to a decrease in capital outlay.

General Fund Budgeting Highlights

The District's budget is prepared according to the financial policies of the Board of Trustees and is based on accounting for certain transactions on the modified accrual basis of accounting. The beginning fund balance for the fiscal year was approximately $5.7 million.

For the general fund, budgeted revenues and other financing sources were budgeted at $5.0 million. Actual revenues and other financing sources were approximately $5.2 million.

Expenditures and other financing uses were budgeted at approximately $5.0 million, while actual expenditures and other financing uses were approximately $4.8 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017, the District had approximately $2.5 million invested in capital assets (net of depreciation), all in governmental activities.

Table 3 reflects fiscal year 2017 balances compared to fiscal year 2016.

Table 3
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2017	2016
Buildings	$ 1,272,425	$ 1,368,618
Vehicles	1,051,393	1,153,252
Equipment	196,156	272,459
Furniture and Fixtures	4,350	7,363
	$ 2,524,324	$ 2,801,692

The current year capital asset activity included the following activity:

Addition of Equipment	$ 20,929
Disposal of Equipment	(34,656)
Disposal of Furniture and Fixtures	(2,716)
Accumulated Depreciation on Disposals	32,254
Depreciation	(293,179)
Change	$ (277,368)

Debt

At June 30, 2017, the District had approximately $447,000 in outstanding debt.

The following is a summary of the District's debt transactions during 2016.

	June 30, 2016	Additions	Repayments	June 30, 2017
Compensated Absences	$ 490,452	$ -	$ 43,057	$ 447,395

Economic Factors in Next Year's Budget

Total revenues for the year ended June 30, 2018 are budgeted at $5,056,685, approximately $174,000 less than the actual revenue for June 30, 2017. Total expenses for the year ended June 30, 2018 are budgeted at $5,257,066, approximately $453,000 more than the actual expenses for June 30, 2017.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the Fire Chief, Dan Hitzfield, at the Hebron Fire Protection District at 3120 North Bend Road, Hebron, KY 41048.

HEBRON FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

		Governmental Activities
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and Cash Equivalents	$	4,449,290
Certificates of Deposit		1,169,120
Common Stock		6,984
Annuities		442,570
Accounts Receivable		72,060
Prepaid Expenses		24,599
Total Current Assets		6,164,623
Noncurrent Assets		
Capital Assets		
Buildings		2,879,941
Vehicles		2,654,594
Equipment		993,665
Furniture and Fixtures		28,781
Less Accumulated Depreciation		(4,032,657)
Total Capital Assets		2,524,324
Total Assets		8,688,947
Deferred Outflows of Resources		
Deferred Outflows Related to Pension		2,350,254
Total Assets and Deferred Outflows of Resources		11,039,201
Liabilities and Deferred Inflows of Resources		
Current Liabilities		
Accounts Payable		12,705
Accrued Payroll and Withholdings		59,277
Compensated Absences		18,561
Total Current Liabilities		90,543
Noncurrent Liabilities (Less Current Portion)		
Compensated Absences		428,834
Net Pension Liability		8,455,944
Total Noncurrent Liabilities		8,884,778
Total Liabilities		8,975,321
Deferred Inflows of Resources		
Deferred Inflows Related to Pension		177
Total Liabilities and Deferred Inflows of Resources		8,975,498
Net Position		
Net Investment in Capital Assets		2,524,324
Unrestricted		(460,621)
Total Net Position	$	2,063,703

See accompanying notes.

HEBRON FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Total Governmental Activities
Primary Government					
Governmental Activities					
Fire	$ 4,809,495	$ 316,598	$ 168,453	$ -	$ (4,324,444)
Pension Expense	561,108	-	-	-	(561,108)
Depreciation	293,179	-	-	-	(293,179)
Total Primary Government	$ 5,663,782	$ 316,598	$ 168,453	$ -	(5,178,731)
General Revenues					
Taxes					4,710,860
Earnings on Investments					20,498
Gain on Sale of Capital Assets					5,314
Miscellaneous					3,575
Total General Revenues					4,740,247
Change in Net Position					(438,484)
Net Position July 1, 2016 (As Restated)					2,502,187
Net Position June 30, 2017					$ 2,063,703

See accompanying notes.

HEBRON FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

		General Fund
Assets		
Cash and Cash Equivalents	$	4,449,290
Certificates of Deposit		1,169,120
Common Stock		6,984
Annuities		442,570
Accounts Receivable		72,060
Prepaid Expenses		24,599
Total Assets	$	6,164,623
Liabilities and Fund Balances		
Liabilities		
Accounts Payable	$	12,705
Accrued Payroll and Withholdings		59,277
Total Liabilities		71,982
Fund Balances		
Nonspendable		
Prepaid Expenses		24,599
Unassigned		6,068,042
Total Fund Balances		6,092,641
Total Liabilities and Fund Balances	$	6,164,623

See accompanying notes.

HEBRON FIRE PROTECTION DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total Fund Balance - Governmental Funds		$ 6,092,641
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	$ 6,556,981	
Accumulated Depreciation	(4,032,657)	
		2,524,324
Compensated absences are not due and payable in the current period, and therefore, are not reported in the governmental funds.		(447,395)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows Related to Pension		2,350,254
Deferred Inflows Related to Pension		(177)
Long-term liabilities, including net pension obligations and notes payable, are not due and payable in the current period, and therefore, are not reported as liabilities in governmental funds.		
Net Pension Liability		(8,455,944)
Net Assets of Governmental Activities in the Statement of Net Position		$ 2,063,703

See accompanying notes.

HEBRON FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund
Revenues	
Property Taxes	$ 4,710,860
Intergovernmental Revenue	168,453
EMS Billings and Fire Runs	316,598
Investment Earnings	20,498
Other Revenue	14,007
Total Revenues	5,230,416
Expenditures	
Current	
Fire	
Salaries and Wages	2,749,834
Employee Benefits	1,649,233
Contractual Services	39,000
Materials and Supplies	130,853
Repairs and Maintenance	51,015
Utilities	49,908
Insurance	48,787
Administration	68,766
Capital Outlay	16,379
Total Expenditures	4,803,775
Net Change in Fund Balances	426,641
Fund Balance July 1, 2016 (As Restated)	5,666,000
Fund Balance June 30, 2017	$ 6,092,641

See accompanying notes.

HEBRON FIRE PROTECTION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Change in Fund Balances - Total Governmental Funds		$ 426,641
Amounts reported for governmental activities in the statement of net position are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation Expense	$ (293,179)	
Capital Outlays	20,929	
		(272,250)
Proceeds from the disposal of capital assets are recorded at the gross amount received. On the statement of activities, the proceeds from the sale are netted against the net book value of the asset.		(5,118)
Compensated absences not expected to be paid within the next fiscal year are not reported as liabilities in the fund, but are reported as liabilities in the statement of net position. This is the net change in compensated absences for the year.		43,057
Governmental funds report District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.		
District Pension Contributions - June 30, 2017		584,566
District Pension Contributions - June 30, 2016		(519,218)
Cost of Benefits Earned Net of Employee Contributions		(696,162)
Change in Net Position - Governmental Activities		$ (438,484)

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The Hebron Fire Protection District (the District) is a non-enterprise governmental entity with taxing authority special purpose governmental entity governed under the provisions of Kentucky Revised Statute 75 and is administered by a Board of Trustees.

The District's purpose is to prevent and suppress fire and other similar hazards, to protect the lives and property of the public and to assist other governmental agencies in pursuit of these goals.

Basis of Presentation

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function, or program, of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department, and are; therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds, rather than reporting funds by type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balance, which reports on the changes in net total position.

The District has one governmental fund. The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues - Exchange and Non-Exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used, or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Capital Assets

General capital assets are assets that generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of $500. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend an asset’s life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for general capital assets:

Description	Governmental Activities Estimated Lives
Buildings	30 Years
Vehicles	7 - 20 Years
Equipment	5 - 10 Years
Furniture and Fixtures	5 - 10 Years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements, only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- Non-Spendable – Amounts that cannot be spent, either because they are in a non-spendable form, or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can be spent only for specific purposes because of the state or federal laws or externally imposed conditions by grantors or creditors.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by the Board of Trustees.
- Assigned – Amounts that are designated by the District or Board of Trustees for a particular purpose.
- Unassigned – All amounts not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources, and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications-committed and then assigned fund balances before using unassigned fund balances.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

The net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

The District considers demand deposits to be cash equivalents.

Investments

District investments with a maturity of one year or less when purchased and non-negotiable certificates of deposit are stated at amortized cost. District investments with a maturity greater than one year when purchased are reported at fair value. Fair value is based on quoted market prices at June 30 for the District's investments.

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused paid time off. There is a liability for unpaid accumulated paid time off since the District does have a policy to pay specified amounts when employees separate from service with the District. All paid time off is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

Property Taxes

Property taxes include amounts levied on real and tangible property. The District's property tax rates are set annually by the District's Board of Trustees. The real estate property tax was $1.21 per $1,000 of assessed value and tangible rate was $1.21 per $1,000 of assessed value for the fiscal year ending June 30, 2017.

Real property values were assessed on January 1^{st}, property taxes were levied on October 31^{st}, and are due and payable on or before December 31^{st}. The taxpayer, however, receives a 2% discount if the taxes are paid by early November. All unpaid taxes become delinquent January 1^{st} of the following year. Real property taxes are billed and collected by the Boone County Sheriff. The portion payable to the District is then remitted on a monthly basis. The District recognizes the tax revenue once it has been collected by the County Sheriff. The County Sheriff withholds a portion of the real property taxes as a collection fee.

Tangible property 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 the month. All unpaid taxes become delinquent on the first day of the subsequent month. Tangible property taxes are billed and collected by the Boone County Clerk. The portion payable to the District is then remitted on a monthly basis. The District recognizes the tax revenue once it has been collected by the County Clerk. The County Clerk withholds a portion of the tangible property taxes as a collection fee.

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

a) By May 31, the Fire Chief submits to the Board of Trustees, a proposed operating budget on the modified accrual basis of accounting for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.

b) A public meeting is conducted to obtain citizen comments.

c) By July 1, the budget is legally enacted through majority vote of the Board of Trustees.

d) Appropriations continue in effect until a new budget is adopted.

e) The Board of Trustees may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Board of Trustees.

NOTE 3 - DEPOSITS AND INVESTMENTS

It is the policy of the District to invest public funds in a manner that will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the District, and conforming to all state statutes governing the investments of public funds.

Kentucky Revised Statute 66.480 authorizes the District to invest in:

a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.

b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, or a United States government agency.

c) Obligations of any corporation of the United States government.

d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by the Kentucky Revised Statutes.

Deposits

Custodial credit risk – deposits. 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 FDIC. As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2017, $250,000 of the District's deposits were covered by FDIC insurance and the remaining balance was collateralized with securities held by the financial institutions on the District's behalf.

Investments

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has custodial credit risk at June 30, 2017 in the amount of $6,984 with regards to its common stock.

Credit risk – investments. This is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. The District's investment policy seeks to minimize credit risk by requiring investments in securities allowed under the investment policy.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2017, the District had the following investments:

Investment Type	Fair Value
Certificates of Deposit	$ 1,169,120
Other Investments	
Common Stock	6,984
Annuities	442,570
Total Investments	$ 1,618,674

Below is the maturity related to the certificates of deposit:

Investment Maturities (Years)		
Less Than 1	1 - 10	More Than 10
$ 1,169,120	$ -	$ -

NOTE 4 - FAIR VALUE HEIRARCHY

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. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarch is based upon the activity level in the markets for the security type and the inputs used to determine their fair value, as follows:

LEVEL 1 – Unadjusted price quotations in active markets/exchanges for identical assets or liabilities that the District has the ability to access.

LEVEL 2 – Other observable inputs (included but not limited to, quotes process for similar assets or liabilities in the markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks, and default rates) or other market-corroborated inputs).

LEVEL 3 – Unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Following is a description of the valuation methodologies used for the assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017:

Common Stock – Valued at the closing price reported on the active market on which the individual securities are traded.

Annuities – Valued at cost as cost approximates fair value.

NOTE 4 - FAIR VALUE HEIRARCHY (Continued)

The following assets were measured at fair value as of June 30, 2017:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common Stock	$ 6,984	$ -	$ -
Annuities	442,570	-	-
Total Assets at Fair Value	$ 449,554	$ -	$ -

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Depreciable Capital Assets				
Buildings	$ 2,879,941	$ -	$ -	$ 2,879,941
Vehicles	2,654,594	-	-	2,654,594
Equipment	1,007,392	20,929	(34,656)	993,665
Furniture and Fixtures	31,497	-	(2,716)	28,781
Total Depreciable Capital Assets	6,573,424	20,929	(37,372)	6,556,981
Total Capital Assets at Historical Cost	6,573,424	20,929	(37,372)	6,556,981
Less Accumulated Depreciation				
Buildings	1,511,323	96,193	-	1,607,516
Vehicles	1,501,342	101,859	-	1,603,201
Equipment	734,933	92,937	(30,361)	797,509
Furniture and Fixtures	24,134	2,190	(1,893)	24,431
Total Accumulated Depreciation	3,771,732	293,179	(32,254)	4,032,657
Depreciable Capital Assets, Net	2,801,692	(272,250)	(5,118)	2,524,324
Governmental Activities Capital Assets - Net	$ 2,801,692	$ (272,250)	$ (5,118)	$ 2,524,324

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 6 - LONG-TERM DEBT

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2017.

Governmental Activities	Debt Outstanding June 30, 2016	Additions of New Debt	Retirements and Repayments	Debt Outstanding June 30, 2017	Amounts Due Within 1 Year
Compensated Absences	$ 490,452	$ -	$ 43,057	$ 447,395	$ 18,561

NOTE 7 - PENSION PLAN

General Information about the Pension Plan

Plan description: County Employees Retirement System consists of two plans, Nonhazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit pension 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 nonhazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS.

Benefits provided: These systems provide for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Nonhazardous Plan:

Tier 1: Retirement Eligibility for Members Whose Participation Began Before 09/01/2008

Age	Years of Service	Allowance Reduction
65	4	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.

Tier 2: Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008 but Before 01/01/2014

Age	Years of Service	Allowance Reduction
65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for next five years before age 65 or Rule of 87 (age plus years of service).

Tier 3: Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014

Age	Years of Service	Allowance Reduction
65	5	None
57	Rule of 87	None

NOTE 7 - PENSION PLAN (Continued)

Benefit Formula for Tier 1

Final Compensation	X	Benefit Factor		X	Years of Service
Average of the five highest if participation began before 09/01/2008.		2.20% if:	Member begins participating prior to 08/01/2004.		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).

Benefit Formula for Tier 2

Final Compensation	X	Benefit Factor		X	Years of Service
Average of the last complete five if participation began on or after 09/01/2008 but before 01/01/2014.		2.00% if:	Member begins participating on or after 08/01/2004 and before 09/01/2008.		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
		Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:	Member begins participating on or after 09/01/2008.		

* ***Service*** *(and Benefit Factor):* ***10 years or less*** *(1.10%);* ***10 - 20 years*** *(1.30%);* ***20 - 26 years (1.50%); 26 - 30 years*** *(1.75%)*

Benefit Formula for Tier 3

(A-B) = C X 75% = D then B+D = Interest

A 5 Year Geometric Average Return	B 2016 Rate	C Upside Sharing Interest	D Interest Rate Earned	Interest Rate Earned (4% + Upside)	Total Interest Credited to Members' Accounts
5.16%	4.00%	1.16%	0.87%	4.87%	$ 672,783

Tier 3 member begins participating on or after 01/01/2014. Each year that a member is an active contributing member to the System, the member and the member’s employer will contribute 5.00% and 4.00% of creditable compensation respectively into a hypothetical account. This hypothetical account will earn interest annually on both the member’s and employer’s contribution at a minimum rate of 4.00%. If the System’s geometric average net investment return for the previous five years exceeds 4.00%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4.00%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

NOTE 7 - PENSION PLAN (Continued)

Hazardous Plan:

Tier 1: Retirement Eligibility for Members Whose Participation Began Before 09/01/2008

Age	Years of Service	Allowance Reduction
55	5	None
Any	20	6.5% per year for first five years, and 4.5% for next five years before age 55 or 20 years of service.
50	15	6.5% per year for first five years, and 4.5% for next five years before age 55 or 20 years of service.

Tier 2: Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008 but before 01/01/2014

Age	Years of Service	Allowance Reduction
60	5	None
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 60 or 25 years of service.
50	15	6.5% per year for first five years, and 4.5% for next five years before age 60 or 25 years of service.

Tier 3: Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014

Age	Years of Service	Allowance Reduction
60	5	None
Any	25	None

Benefit Formula for Tier 1

Final Compensation	X	Benefit Factor		X	Years of Service
Average of the three highest if participation began before 09/01/2008.		2.50% if:	Member begins participating before 09/01/2008.		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).

Benefit Formula for Tier 2

Final Compensation	X	Benefit Factor		X	Years of Service
Average of the three highest if participation began before 09/01/2008.		Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:	Member begins participating on or after 09/01/2008 but before 01/01/2014.		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).

* ***Service*** *(and Benefit Factor):* ***10 years or less*** *(1.30%);* ***10 - 20 years*** *(1.50%);* ***20 - 25 years (2.25%); 25 + years*** *(2.50%)*

NOTE 7 - PENSION PLAN (Continued)

Benefit Formula for Tier 3
(A-B) = C X 75% = D then B+D = Interest

A	B	C	D	Interest	Total
5 Year Geometric Average Return	2016 Rate	Upside Sharing Interest	Interest Rate Earned	Rate Earned (4% + Upside)	Interest Credited to Members' Accounts
5.34%	4.00%	1.34%	1.01%	5.01%	$ 147,772

Tier 3 member begins participating on or after 01/01/2014. Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 8.00% and 7.50% of creditable compensation respectively into a hypothetical account. This hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4.00%. If the System's geometric average net investment return for the previous five years exceeds 4.00%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4.00%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

Nonhazardous and Hazardous Plans:

For post-retirement death benefits, if the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a $5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

For disability benefits, members participating before 08/01/2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after 08/01/2004 but before 01/01/2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of 20% for nonhazardous and 25% for hazardous of Final Rate of Pay or the amount calculated under the Benefit Formula based upon actual service. Members participating on or after 01/01/2014 may retire on account of disability provided the member has at least 60 months of service credit. The hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or an annuity equal to the larger of 20% for nonhazardous and 25% for hazardous of the member's monthly final rate of pay or the annuitized hypothetical account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

For pre-retirement death benefits, the beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

Monthly retirement allowances are increased July 1 each year by 1.00% to 1.50%. The Kentucky General Assembly has the authority to increase, suspend, or reduce Cost of Living Adjustments. HB 265 of 2012 eliminated the July 1, 2012 and July 1, 2013 COLAs for all retirees. SB2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100.00% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

NOTE 7 - PENSION PLAN (Continued)

Contributions: For the fiscal years ended June 30, 2017 and 2016, plan members who began participating prior to September 1, 2008, were required to contributed 5% nonhazardous and 8% hazardous of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits.

Tier 2 plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% for nonhazardous and 9% for hazardous of their annual creditable compensation. The 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Tier 3 plan members who began participating on or after January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% nonhazardous and 8% hazardous of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% nonhazardous and 7.5% hazardous employer pay credit. The employer pay credit represents a portion of the employer contribution.

Participating employers were required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Section CERS 78.545, normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2017 and 2016, participating employers contributed 18.68% (13.95% pension fund and 4.73% insurance fund) and 17.06% (12.42% pension fund and 4.64% insurance fund), respectively, for the non-hazardous system of each employee's creditable compensation. For the hazardous system, participating employers contributed 31.06% (21.71% pension fund and 9.35% insurance fund) and 32.95% (20.26% pension fund and 12.69% insurance fund) of each employee's creditable compensation for the fiscal years ended June 30, 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 pension fund (excluding the insurance portion) from the District were $584,566 for the year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability of $8,455,944 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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 the District's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2017, the District's proportion for the nonhazardous system was 0.002686% and for the hazardous system was 0.485082%.

NOTE 7 - PENSION PLAN (Continued)

Change of Benefit Terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 are 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 members whose participation date is on or after January 1, 2014.

For the year ended June 30, 2017, the District recognized pension expense of $561,108. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 120,627	$ -
Difference between expected and actual experience	714,611	-
Changes of assumptions	484,655	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	445,795	177
Contributions after measurement date	584,566	-
Total	$ 2,350,254	$ 177

The $584,566 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2018	$ 649,606
2019	649,606
2020	287,647
2021	178,652
Total	$ 1,765,511

NOTE 7 - PENSION PLAN (Continued)

Actuarial assumptions: The total pension 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, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year Smoothed market
Inflation	3.25%
Salary Increase	4.00%, Average, including inflation
Investment Rate of Return	7.50% 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 health retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 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 the 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 long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, at 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 in 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 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 Nominal Return
Combined Equity	44.00 %	5.40 %
Combined Fixed Income	19.00	1.50
Inflation Strategies	10.00	3.50
Real Estate	5.00	4.50
Hedge Funds)	10.00	4.25
Private Equity	10.00	8.50
Cash Equivalent	2.00	(0.25)
Total	100.00 %	

NOTE 7 - PENSION PLAN (Continued)

Discount rate: The discount rate 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 27 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. The discount rate determination does not use a municipal bond rate. The periods of projected benefit payments for all current plan members were projected through 2117.

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 using the discount rate of 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Nonhazardous	$ 164,803	$ 132,230	$ 104,343
Hazardous	$ 10,457,019	$ 8,323,714	$ 6,564,115

Pension plan fiduciary net position: Detailed information about the pension 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.

NOTE 8 - OPERATING LEASES

The District leases equipment under an operating lease expiring in September, 2020. Expenditures for equipment under the operating lease totaled $348 for the year ended June 30, 2017. Future minimum rental payments under this lease is as follows:

Years Ending June 30,	
2018	$ 278
2019	278
2020	278
2021	70
	$ 904

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District has obtained insurance coverage through a commercial insurance company. In addition, the District has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the general fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

Management estimates that the amount of actual or potential claims against the District as of June 30, 2017 will not materially affect the financial condition of the District. Therefore, the general fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE 10 - CLAIMS AND JUDGEMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 11 - CONTINGENT LIABILITIES

The District is, from time to time, a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District’s attorney the resolution of these matters will not have a material adverse effect on the financial condition of the District.

NOTE 12 - DONATED SERVICES

The District does not record the donated services of volunteers.

NOTE 13 - PRIOR PERIOD ADJUSTMENTS

For the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, for the County Employee’s Retirement System and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

As a result of the implementation of GASB Statements No. 68 and 71, the District recognized contributions after measurement date of $1,260,859 for the year ended June 30, 2016. Those contributions after measurement date included contributions to both the pension fund as well as the insurance fund of the CERS systems. Therefore, the net position was understated by $639,765 as of June 30, 2016.

Compensated Absence was restated to properly report the amounts for the taxes related to payroll that were not reported. The balance was understated by $34,853 as of June 30, 2016

The district received shares in common stock in which were not reported. The fair value of the stock was understated by $4,481 as of June 30, 2016.

NOTE 13 - PRIOR PERIOD ADJUSTMENTS (Continued)

The items above had the following effect:

Net Position, June 30, 2016	$	1,823,088
Contributions after Measurement Date for Insurance Fund		639,765
FICA Taxes related to Compensated Absences		34,853
Received Investment in Common Stock		4,481
Restated Net Position, June 30, 2016	$	2,502,187

REQUIRED SUPPLEMENTARY INFORMATION

HEBRON FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Favorable
	Original	Final	Actual	(Unfavorable)
Revenues				
Property Taxes	$ 4,456,380	$ 4,456,380	$ 4,710,860	$ 254,480
Intergovernmental Revenue	152,493	179,613	168,453	(11,160)
EMS Billings and Fire Runs	319,776	319,776	316,598	(3,178)
Investment Earnings	19,000	19,000	20,498	1,498
Other Revenue	-	-	14,007	14,007
Total Revenues	4,947,649	4,974,769	5,230,416	255,647
Expenditures				
Fire				
Salaries and Wages	2,743,024	2,764,860	2,749,834	15,026
Employee Benefits	1,677,250	1,682,487	1,649,233	33,254
Contractual Services	72,600	72,600	39,000	33,600
Materials and Supplies	167,540	167,312	130,853	36,459
Repairs and Maintenance	77,750	77,750	51,015	26,735
Utilities	63,200	63,475	49,908	13,567
Insurance	42,000	42,000	48,787	(6,787)
Administration	87,285	87,285	68,766	18,519
Capital Outlay	17,000	17,000	16,379	621
Total Expenditures	4,947,649	4,974,769	4,803,775	170,994
Net Change in Fund Balance	-	-	426,641	426,641
Fund Balance July 1, 2016 (As Restated)	5,666,000	5,666,000	5,666,000	-
Fund Balance June 30, 2017	$ 5,666,000	$ 5,666,000	$ 6,092,641	$ 426,641

See accompanying notes.

HEBRON FIRE PROTECTION DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

June 30, 2017

County Employees Retirement System

	2017	2016	2015
District's Proportion of the Net Pension Liability (Asset) - Non Hazardous	0.00269%	0.00269%	0.00259%
District's Proportion of the Net Pension Liability (Asset) - Hazardous	0.48508%	0.45190%	0.43486%
District's Proportionate Share of the Net Pension Liability (Asset) - Non Hazardous	$ 132,230	$ 115,754	$ 83,938
District's Proportionate Share of the Net Pension Liability (Asset) - Hazardous	8,323,714	6,937,107	5,226,286
Total District's Proportionate Share of the Net Pension Liability (Asset)	$ 8,455,944	$ 7,052,861	$ 5,310,224
District's Covered - Employee Payroll	$ 2,594,114	$ 2,433,001	$ 2,276,983
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	325.97%	289.88%	233.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Non Hazardous	55.50%	59.97%	66.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Hazardous	53.95%	57.52%	63.46%

See accompanying notes.

HEBRON FIRE PROTECTION DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
June 30, 2017

County Employees Retirement System
Last 3 Fiscal Years

Nonhazardous	2017	2016	2015
Contractually Required Contribution	$ 8,773	$ 10,059	$ 7,977
Contributions in Relation to the Contractually Required Contribution	(8,773)	(10,059)	(7,977)
Contribution Deficiency (Excess)	$ -	$ -	$ -
District's Covered-Employee Payroll	$ 62,888	$ 80,991	$ 62,814
Contributions as a Percentage of Covered-Employee Payroll	13.95%	12.42%	12.70%

Hazardous	2017	2016	2015
Contractually Required Contribution	$ 575,793	$ 509,159	$ 475,933
Contributions in Relation to the Contractually Required Contribution	(575,793)	(509,159)	(475,933)
Contribution Deficiency (Excess)	$ -	$ -	$ -
District's Covered-Employee Payroll	$ 2,652,202	$ 2,513,123	$ 2,370,187
Contributions as a Percentage of Covered-Employee Payroll	21.71%	20.26%	20.08%

See accompanying notes.

OTHER SUPPLEMENTARY INFORMATION

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

Board of Trustees
Hebron Fire Protection District

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 and each major fund of the Hebron Fire Protection District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Hebron Fire Protection District's basic financial statements, and have issued our report thereon dated February 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control in financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

2017-001 Reconcile Accounts to Supporting Documents

In order to make the financial reports generated by the accounting systems as meaningful as possible, the District should reconcile the general ledger accounts for cash, investments, accounts receivable, prepaids, accounts payable, and accruals to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulated but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. These reconciliations should be reviewed by another member of the District and their review should be physically documented. The District should have a policy that no reconciliations or accounts will be changed or altered in any manner after that review occurs.

Management's Response

The District will take this under advisement and consider implementation and adoption of a policy.

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2017-002 Consider Hiring or Appointing an Individual for Oversight

Management should possess the knowledge, skills, and experience necessary to prepare and accept responsibility for the audited financial statements in accordance with accounting standards generally accepted in the United States of America. As a result of our audit procedures it was determined that the District does not have an employee, Board Member, or outside agency currently serving in this capacity with the necessary knowledge, skills and experience. We recommend the District consider hiring or appointing a Board Member that possesses the knowledge, skills and experience necessary to accept responsibility for the audit financial statements.

Management's Response

The District does not possess the audit and accounting skills to prepare footnote 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 VonLehman CPA and Advisory Firm to draft the financial statements, supplementary information, and related footnotes. 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 footnotes 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.

Management's response to the above findings were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we did identify other matters which are described in our management recommendation letter.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VonLehman & Company Inc.

Fort Wright, Kentucky
February 12, 2018