

EAST MARSHALL
Fire Protection District
AUDIT REPORT
June 30, 2016

AUDIT REPORT

of the

EAST MARSHALL FIRE PROTECTION DISTRICT

For the fiscal year ended

JUNE 30, 2016

KIM HAM

CERTIFIED PUBLIC ACCOUNTANT

TAXES ♦ BOOKKEEPING ♦ AUDITING ♦ PAYROLL ♦ CONSULTING

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
EAST MARSHALL FIRE PROTECTION DISTRICT
7584 Moors Camp Highway
Gilbertsville, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities of the East Marshall Fire Protection District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the East Marshall Fire Protection 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the East Marshall Fire Protection District, as of June 30, 2016, and the respective changes in financial position 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 and budgetary comparison information on pages 3 through 6 and on page 20 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 21, 2016, on my consideration of the East Marshall Fire Protection District's internal control over financial reporting and on my 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 my 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 the East Marshall Fire Protection District's internal control over financial reporting and compliance.



Benton, Kentucky
November 21, 2016

EAST MARSHALL FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

Our discussion and analysis of the East Marshall Fire Protection District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the District's basic financial statements.

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 are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 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 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 financed by local property taxes and state grants. The governmental activities of the District include general operations of the fire department.

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 has only a governmental fund, as no other categories of funds apply to it.

In governmental funds the focus is on how money flows into and out of the funds and the balances left at year-end that are available for spending and are normally supported by taxes and intergovernmental revenues. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

NOTES TO THE FINANCIAL STATEMENTS

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

EAST MARSHALL FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's condensed comparative financial information from the government-wide financial statements follows:

	Net Position for the Period Ending	
	June 30, 2016	June 30, 2015
Current Assets	\$ 81,390	\$ 170,770
Noncurrent Assets	<u>2,252,510</u>	<u>1,085,895</u>
Total Assets	<u>2,333,900</u>	<u>1,256,665</u>
Current Liabilities	92,927	6,548
Noncurrent Liabilities	<u>939,743</u>	<u>0</u>
Total Liabilities	<u>1,032,670</u>	<u>6,548</u>
Net Investment in Capital Assets	1,235,173	1,085,895
Unrestricted	<u>66,057</u>	<u>164,222</u>
Total Net Position	<u>\$ 1,301,230</u>	<u>\$ 1,250,117</u>

The following presents a summary of revenue and expense for the fiscal year ended June 30, 2016, compared to the fiscal year ended June 30, 2015.

	June 30, 2016	June 30, 2015
Program Revenues:		
Charges for Services	\$ 0	\$ 520
Capital Grants and Contributions	<u>8,250</u>	<u>8,250</u>
Total Program Revenues	<u>8,250</u>	<u>8,770</u>
General Revenues:		
Property taxes	324,724	323,736
Interest	175	207
Gain on disposition of assets	<u>13,858</u>	<u>51</u>
Total General Revenues	<u>338,757</u>	<u>323,994</u>
Expenses:		
Public safety	<u>295,894</u>	<u>260,338</u>
Total Expenses	<u>295,894</u>	<u>260,338</u>
Change in Net Position	<u>\$ 51,113</u>	<u>\$ 72,426</u>

The 2014-2015 financial summary was posted in the local paper and the budget was submitted to SPGE with the State of Kentucky.

We qualified for GSA grant money which will provide some percentage credit towards boat purchase.

The Board approved Richard Bay as Vice-President and Kimberley Lightfoot as Treasurer.

The Board of Directors approved keeping the tax rate at 9.400 for fiscal year 2015-2016.

EAST MARSHALL FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

The Board of Directors declared our fireboat, equipment and trailer surplus and approved to sell it to another government agency.

A letter of intent was presented to the Board from Calloway County to purchase the fire boat for \$18,000 which the Board approved. The original cost was \$24,000 for the boat, motor, trailer and all fire equipment on board.

The Board approved having Ashley Collier to clean up boundary lines at the new station including a dead tree in the 26 foot easement for around \$3,000.

The Board approved repairing the air conditioning unit at station #1 for quoted price of \$5,400.

The Board approved all insurance coverages for the new year with Western Rivers Insurance.

The Board approved the plans for the new station #2 from CMS Architects, who then later presented the Board with two sealed bids for constructing the new station. The bid from Pinnacle Inc. was \$1,239,000 and A & K Construction was \$1,085,000. The Board elected to go with A & K Construction.

The Board approved having Richard Bay's name added to the safe deposit box.

Leigh Thistlethwaite resigned from the Board due to moving out of the area. Matthew Cunningham was voted by the firefighters to take Leigh's place.

The Board approved renewing real estate contract with Mary Lou Childs at Re/Max Realty.

On October 3rd, we took delivery of our new 28 foot fire boat, with total cost of \$240,293.20. We paid a deposit of \$93,846.00 and financed the rest for \$146,951.20 for two years. The Board approved making our first payment on the fire boat for \$80,000, then later approved paying off the boat loan before the end of the year.

Our fiscal year 14-15 audit with Kim Ham, CPA was completed and a form 990 filed with the IRS and the audit and UFIR was filed with the state.

The Board approved drawing up a lease between the East Marshall Fire Department and the Public Properties Corporation in order to get a loan for construction of the new station.

The Board approved the purchase of three AED batteries and pads for about \$1,500 and seven new 4500 lb. SCBA air packs for \$40,600.

The Board approved option #3 with WKRE to set a pole on the front east corner of the property and run the electric down and under the property and back up a pole on the back of the property for \$6,252 at new station #2.

The Board approved the old SCBA packs without the tanks as surplus and the sale to Hardin/South Marshall Fire Department for \$1.00.

The Board approved lawn service renewal by Gateway Nursery and Southern Termite for pest control for twelve months.

The Board approved Alert Alarm System's quote for labor and materials at \$1,843.

EAST MARSHALL FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

The Board approved Mediacom for satellite, phone and internet for \$89.95 per month for three years.

The Board approved purchasing the inflatable stretcher for fire boat for \$1,600.

The Board approved dropping the price for the property on Dusty Trail to \$12,500 and renews the contract with Re/Max.

The Board approved buying all appliances for new station from Western Auto.

The Board approved upgrading parking lot lights at station #1 to LED fixtures.

Carl Boyd, our Chairman, is retiring at the end of June, 2016.

The Board recommended two people to the Judge-Executive (Carl Etienne and Brett Edwards) and Kevin Neal appointed Brett Edwards to the Board position.

The Board approved Ed Logue, the Treasurer, to make ten budget changes with SPGE.

State aid money was increased from \$8,250 to \$11,000 for the next two years.

The Board approved making the first loan payment on the new station in January, 2017.

MAJOR FUND ANALYSIS

Revenue Recap:

The General Fund received most of its revenues from property taxes collected (97.5%), followed by state aid (2.5%).

Expenditure Recap:

The General Fund expended most of its funds on capital outlay (42.4%), debt service (32.1%), travel and training (6.4%), building and equipment maintenance (5.2%), insurance (5.1%), utilities and telephone (3.0%), supplies (2.5%), expense allowance for the fire chief, assistant fire chief, and treasurer (1.8%), and other administrative expense (1.5%).

Comments on General Fund Budget Comparison:

The District's actual revenues were approximately \$4,500 above the budget, primarily from more property taxes received than budgeted. The actual expenditures were approximately \$2,900 above the budget, primarily due to capital expenditures being more than budgeted.

ADDITIONAL NOTES

The financial reports are designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives.

Questions or comments regarding these financial reports may be directed to Ed Logue, Treasurer at 270-362-8532.

EAST MARSHALL FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 70,724
Receivables:	
Taxes	3,284
Prepaid expenses	7,382
Total Current Assets	<u>81,390</u>
 Noncurrent Assets:	
Capital assets	3,827,444
Less: Accumulated depreciation	<u>(1,574,934)</u>
Total Noncurrent Assets	<u>2,252,510</u>
TOTAL ASSETS	<u><u>\$ 2,333,900</u></u>
 LIABILITIES:	
Current Liabilities:	
Accounts payable	\$ 15,333
Construction contract payable	<u>77,594</u>
Total Current Liabilities	<u>92,927</u>
 Noncurrent Liabilities:	
Construction loan payable	<u>939,743</u>
Total Noncurrent Liabilities	<u>939,743</u>
TOTAL LIABILITIES	<u><u>\$ 1,032,670</u></u>
 NET POSITION:	
Net investment in capital assets	\$ 1,235,173
Unrestricted	<u>66,057</u>
TOTAL NET POSITION	<u><u>\$ 1,301,230</u></u>

EAST MARSHALL FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Capital Grants & Contributions</u>	<u>Net Expense (Revenue) and Changes in Net Position</u>
FUNCTIONS/PROGRAMS				<u>Governmental Activities</u>
Governmental Activities:				
Public safety:				
Fire	\$ 295,894	\$ 0	\$ 8,250	\$ (287,644)
Total governmental activities	<u>295,894</u>	<u>0</u>	<u>8,250</u>	<u>(287,644)</u>
Total primary government	<u>\$ 295,894</u>	<u>\$ 0</u>	<u>\$ 8,250</u>	<u>(287,644)</u>
General Revenues:				
Taxes:				
Property				324,724
Gain on disposition of assets				13,858
Interest				175
Total general revenues				<u>338,757</u>
Change in net position				51,113
Net Position at July 1, 2015				<u>1,250,117</u>
Net Position at June 30, 2016				<u>\$ 1,301,230</u>

See Notes to Financial Statements

EAST MARSHALL FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
 June 30, 2016

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 70,724	\$ 0	\$ 70,724
Receivables			
Taxes	3,284	0	3,284
Prepays	<u>7,382</u>	<u>0</u>	<u>7,382</u>
TOTAL ASSETS	<u>\$ 81,390</u>	<u>\$ 0</u>	<u>\$ 81,390</u>
LIABILITIES AND FUND BALANCE:			
LIABILITIES:			
Accounts payable	<u>\$ 15,333</u>	<u>\$ 0</u>	<u>\$ 15,333</u>
TOTAL LIABILITIES	<u>15,333</u>	<u>0</u>	<u>15,333</u>
FUND BALANCES:			
Nonspendable - prepaids	7,382	0	7,382
Unassigned	<u>58,675</u>	<u>0</u>	<u>58,675</u>
TOTAL FUND BALANCES	<u>66,057</u>	<u>0</u>	<u>66,057</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 81,390</u>	<u>\$ 0</u>	<u>\$ 81,390</u>

See Notes to Financial Statements

EAST MARSHALL FIRE PROTECTION DISTRICT
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2016

Total fund balance per fund financial statements	\$	66,057
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position		2,252,510
Notes payable are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position		(939,743)
Payables on the construction contract will not be paid with available spendable resources, but will be financed with the construction line of credit		(77,594)
		1,301,230
Net position of governmental activities	\$	1,301,230

See Notes to Financial Statements

EAST MARSHALL FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General Fund	Construction Fund	Total Governmental Funds
REVENUES:			
Property taxes	\$ 324,724	\$ 0	\$ 324,724
State aid	8,250	0	8,250
Interest	175	0	175
TOTAL REVENUES	<u>333,149</u>	<u>0</u>	<u>333,149</u>
EXPENDITURES:			
Current:			
Advertising	56	0	56
Board member fees	1,950	0	1,950
Building and grounds maintenance	9,061	0	9,061
Chiefs' expense allowance & treasurer fee	9,000	0	9,000
Dues and subscriptions	617	0	617
Equipment maintenance	16,339	0	16,339
Gas and oil	656	0	656
Insurance	25,206	0	25,206
Meals	3,061	0	3,061
Miscellaneous	445	0	445
Office and station supplies	11,431	0	11,431
Professional fees	1,200	0	1,200
Service agreements	385	0	385
Telephone	2,951	0	2,951
Training	27,651	0	27,651
Travel	4,056	0	4,056
Utilities	11,836	0	11,836
Capital outlay:			
Building, equipment, expansion, upgrade	208,345	1,044,075	1,252,420
Debt service:			
Note principal payments	146,955	7,763	154,718
Note interest payments	10,737	0	10,737
TOTAL EXPENDITURES	<u>491,938</u>	<u>1,051,838</u>	<u>1,543,776</u>
Excess (deficit) of revenues over (under) expenditures before other financing sources (uses)	<u>(158,789)</u>	<u>(1,051,838)</u>	<u>(1,210,627)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	0	104,332	104,332
Transfers out	(104,332)	0	(104,332)
Sale of surplus	18,001	0	18,001
Proceeds from note payable	146,955	947,506	1,094,461
TOTAL OTHER FINANCING SOURCES (USES)	<u>60,624</u>	<u>1,051,838</u>	<u>1,112,462</u>
Net change in fund balance	(98,165)	0	(98,165)
Fund Balance, July 1, 2015	164,222	0	164,222
FUND BALANCE, JUNE 30, 2016	<u>\$ 66,057</u>	<u>\$ 0</u>	<u>\$ 66,057</u>

See Notes to Financial Statements

EAST MARSHALL FIRE PROTECTION DISTRICT
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES**
 For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$	(98,165)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$1,252,420 exceeds depreciation of \$(159,256)		1,093,164
The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position. This is the amount by which debt issued exceeded repayments.		(939,743)
The remaining basis on disposal of capital assets is not recorded in the governmental funds because the assets were recorded as expenditures when purchased.		(4,143)
		(98,165)
Change in net position of governmental activities	\$	51,113

See Notes to Financial Statements

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The East Marshall Fire Protection District was formed as provided in KRS 75.010. The entity is a special purpose governmental entity, and as such is exempt from income tax.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the District's operations include how the budget is adopted, whether debt is secured by general obligation of the District, the District's duty to cover any deficits that may occur and supervision over the accounting functions. Based on this, the primary government of the District includes only the general fund of the fire department.

The District does not have any discretely presented component units.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all the activities of the primary government. The statement of activities outlines the direct expenses of the District's major functions and the program revenues generated by those programs. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – In fund financial statements, each fund is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. The District reports only one fund, which is the general fund.

C. Reconciliation of Government-Wide and Fund Financial Statements

The statements include a reconciliation between fund balances in the governmental funds and net position reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. A similar reconciliation is included in the statements to reflect the transition from the modified accrual basis of accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with depreciation expense and principal payments are not reported as an expense.

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement 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. Property tax revenues are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

The District reports the following major governmental fund:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

E. Assets, Liabilities and Net Position or Equity

Deposits and Investments

The District's cash and cash equivalents are considered to be cash in demand deposits and savings accounts. The District did not have any investments during the year.

Prepaid Items

Prepaid items include insurance premiums and service agreements which cover periods subsequent to June 30, 2016.

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Position or Equity (continued)

Receivables and Payables

Property tax receivable is shown at the amount collected by county fee officials through June 30, 2016 and remitted to the District thereafter for current taxes. Delinquent taxes are shown in receivables if received within 60 days after year end. Delinquent taxes not received within 60 days after year end are considered to be uncollectible. Property taxes are secured by a lien on the property, but uncollected amounts are fully reserved as of June 30.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the government-wide financial statements. In accordance with provisions of GASB 34, the District is not required to retroactively report infrastructure. Therefore, the District has elected to only report infrastructure additions from July 1, 2003 and forward.

The District's capitalization policy previously used to record assets in the General Fixed Assets Account Group is now being used by the Governmental Funds, which is to recognize capital assets as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of one year. Such assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements, other than buildings	20
Infrastructure	40
Vehicles	5-10
Computer and related equipment	5
Other equipment	5-10

Long-Term Obligations

In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activities statement of net position.

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Position or Equity (continued)

Fund Balance Classifications

Nonspendable fund balances are amounts that are not in a spendable form (such as prepaid expenses) or are required to be maintained intact.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which, for the District, is the Board of Directors. The Board of Directors must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

It is the District's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned, then unassigned funds.

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets 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. 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.

Use of Restricted Resources

When an expense is incurred for which there are both restricted and unrestricted net position available, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Subsequent Events

In preparing these financial statements, management has evaluated other events and transactions for potential recognition or disclosure through November 21, 2016, the date the financial statements were available to be issued.

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The annual budget for the general fund is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. The fire chief submits the budget to the Board of Trustees, which revises and adopts the budget prior to the beginning of the fiscal year. The budget is presented in summary form to minimize necessary amendments; however, it also contains more detailed line item amounts for administrative control. Amendments may be adopted during the year as necessary to comply with KRS 91A.030.

B. Excess Expenditures and Revenues

For the year ended June 30, 2016, expenditures did not exceed appropriations in the general fund.

NOTE 3 - DEPOSITS AND INVESTMENTS

The District's investment policies are to invest public funds in a manner which 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 and regulations governing the investment of public funds.

Deposits

At year-end, the carrying amounts of the District's deposits were \$70,724 and the bank balances of the District's deposits were \$70,829. The entire bank balance was covered by federal depository insurance.

NOTE 4 - PROPERTY TAX

Property taxes include amounts levied against all real and public utility property, plus tangible personal property that is located within the District's boundaries. All property taxes are levied as of July 1 based on the assessment values as of the previous January 1. Property taxes are due within 60 days after mailing by the sheriff's office. After that date, a penalty is imposed.

Assessed values are established by the County Property Valuation Administrator at 100% of appraised market value. The District's tax rate applicable to the 2016 fiscal year was \$.094 per \$100 of assessed valuation for real estate and tangible personal property.

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2016</u>
Governmental Activities:				
Historical Cost:				
Land	\$ 69,432	\$ 0	\$ 0	\$ 69,432
Land improvements	9,000	0	0	9,000
Building & improvements	848,144	8,206	0	856,350
Vehicles & equipment	1,513,138	293,986	47,738	1,759,386
Construction in progress	<u>105,454</u>	<u>1,121,668</u>	<u>93,846</u>	<u>1,133,276</u>
Total	<u>2,545,168</u>	<u>1,423,860</u>	<u>141,584</u>	<u>3,827,444</u>
Accumulated depreciation:				
Land improvements	1,694	321	0	2,015
Building & improvements	306,440	21,952	0	328,392
Vehicles & equipment	<u>1,151,139</u>	<u>136,983</u>	<u>43,595</u>	<u>1,244,527</u>
Total	<u>1,459,273</u>	<u>159,256</u>	<u>43,595</u>	<u>1,574,934</u>
Capital Assets, Net	<u>\$ 1,085,895</u>	<u>\$1,264,604</u>	<u>\$ 97,989</u>	<u>\$ 2,252,510</u>

Depreciation expense was charged to the governmental functions as follows:

Public safety-fire department	\$159,256
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NOTE 6 - CONSTRUCTION LOAN

On December 22, 2015, the District obtained a construction line of credit from a local bank with a maximum amount of \$1,235,000. As of June 30, 2016, the amount borrowed under the loan was \$939,743. The loan is scheduled to convert to a 15 year fixed rate loan on December 22, 2016. During the construction phase, interest only is payable on the loan.

NOTE 7 - ESTIMATES

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

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

NOTE 8 - 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. The District purchases commercial insurance for coverage for these risks. Coverage consists of \$3,000,000 aggregate general liability and \$4,000,000 aggregate commercial umbrella. Coverage for property risk is \$114,005 for personal property, \$1,455,289 for the buildings, and \$280,973 for portable equipment. The District also carries commercial auto liability coverage in the amount of \$1,000,000 and all vehicles carry coverage for physical damage at agreed value, actual cash value, or cost of repairs, whichever is less. The District also has a blanket bond for \$100,000 each on the treasurer, fire chief and chairman of the board, and \$10,000 aggregate limit on others. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in recent years.

NOTE 9 - COMMITMENTS/SUBSEQUENT EVENTS

At the May, 2014 board meeting, the District selected an architect to begin the process of constructing a new station #2. At the August, 2014 board meeting, the District voted to purchase some land for \$40,000. The land was purchased in September, 2014. In March, 2015, the architect presented the schematic design of the building with an approximate construction cost of \$723,840. The District received bids for the construction of the building in September, 2015 and approved a bid of \$1,085,000. With change orders of \$852 included, the balance remaining on the contract as of June 30, 2016 was \$70,717 and the balance remaining on the contract for the architect was \$1,035.

**REQUIRED SUPPLEMENTARY
INFORMATION**

EAST MARSHALL FIRE PROTECTION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2016

	Original	Final	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Property taxes	\$ 320,000	\$ 320,000	\$ 324,724	\$ 4,724
State aid	8,250	8,250	8,250	0
Interest	200	200	175	(25)
Miscellaneous	150	150	0	(150)
TOTAL REVENUES	<u>328,600</u>	<u>328,600</u>	<u>333,149</u>	<u>4,549</u>
EXPENDITURES:				
Current:				
Personnel	41,100	41,100	33,125	7,975
Operations	130,500	100,500	79,121	21,379
Administration	21,500	21,500	13,655	7,845
Capital outlay	225,902	155,902	208,345	(52,443)
Debt service	70,000	170,000	157,692	12,308
TOTAL EXPENDITURES	<u>489,002</u>	<u>489,002</u>	<u>491,938</u>	<u>(2,936)</u>
Excess (deficit) of revenues over (under) expenditures before other financing sources (uses)	<u>(160,402)</u>	<u>(160,402)</u>	<u>(158,789)</u>	<u>1,613</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	0	0	(104,332)	(104,332)
Sale of surplus	0	0	18,001	18,001
Proceeds from note payable	0	0	146,955	146,955
TOTAL OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>0</u>	<u>60,624</u>	<u>60,624</u>
Net change in fund balance	(160,402)	(160,402)	(98,165)	62,237
Fund Balance, July 1, 2015	<u>160,402</u>	<u>160,402</u>	<u>164,222</u>	<u>3,820</u>
FUND BALANCE, JUNE 30, 2016	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 66,057</u>	<u>\$ 66,057</u>

See Notes to Financial Statements

ADDITIONAL REPORTS

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KIM HAM

CERTIFIED PUBLIC ACCOUNTANT

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MEMBER,
American Institute
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♦
MEMBER,
Kentucky Society
of CPA's

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
EAST MARSHALL FIRE PROTECTION DISTRICT
7584 Moors Camp Highway
Gilbertsville, Kentucky

I 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 the East Marshall Fire Protection District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the East Marshall Fire Protection District's basic financial statements, and have issued my report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the East Marshall Fire Protection 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the East Marshall Fire Protection District's internal control. Accordingly, I do not express an opinion on the effectiveness of the East Marshall Fire Protection 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the East Marshall Fire Protection District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Benton, Kentucky
November 21, 2016