

EAST MARSHALL
Fire Protection District
AUDIT REPORT

June 30, 2017

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AUDIT REPORT

of the

EAST MARSHALL FIRE PROTECTION DISTRICT

For the fiscal year ended

JUNE 30, 2017

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, 2017, 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, 2017, 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 January 12, 2018, 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
January 12, 2018

EAST MARSHALL FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017

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, 2017. 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, 2017

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, 2017	June 30, 2016
Current Assets	\$ 146,581	\$ 81,390
Noncurrent Assets	<u>2,204,997</u>	<u>2,252,510</u>
Total Assets	<u>2,351,578</u>	<u>2,333,900</u>
Current Liabilities	45,439	92,927
Noncurrent Liabilities	<u>1,013,030</u>	<u>939,743</u>
Total Liabilities	<u>1,058,469</u>	<u>1,032,670</u>
Net Investment in Capital Assets	1,153,003	1,235,173
Unrestricted	<u>140,106</u>	<u>66,057</u>
Total Net Position	<u>\$ 1,293,109</u>	<u>\$ 1,301,230</u>

The following presents a summary of revenue and expense for the fiscal year ended June 30, 2017, compared to the fiscal year ended June 30, 2016.

	June 30, 2017	June 30, 2016
Program Revenues:		
Charges for Services	\$ 5	\$ 0
Operating Grants and Contributions	10,000	0
Capital Grants and Contributions	<u>11,000</u>	<u>8,250</u>
Total Program Revenues	<u>21,005</u>	<u>8,250</u>
General Revenues:		
Property taxes	330,117	324,724
Interest	162	175
Gain on disposition of assets	<u>0</u>	<u>13,858</u>
Total General Revenues	<u>330,279</u>	<u>338,757</u>
Expenses:		
Public safety	<u>359,405</u>	<u>295,894</u>
Total Expenses	<u>359,405</u>	<u>295,894</u>
Change in Net Position	<u>\$ (8,121)</u>	<u>\$ 51,113</u>

John Lawton was elected as Chairman of the Board, Richard Bay as Vice-Chairman, Ed Logue as Treasurer and Kimberley Lightfoot as Secretary. In March, Ed Logue resigned (effective April 2, 2017) and Kimberley Lightfoot was elected Treasurer. Carl Etienne was voted in a public election pursuant to KRS 75 on June 24, 2016 to be the newest landowner member of the Board. He was sworn in and began in July 2017 and was elected Secretary at that time. Brett Edwards was appointed by Marshall County Judge Executive to a 3 year term beginning July 2016. Matthew Cunningham was voted to a new 4 year term by the East Marshall Firefighters beginning July 2016.

EAST MARSHALL FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017

The 2016-2017 financial summary was posted in the local paper and submitted to SPGE with the State of Kentucky.

The tax rate was voted to remain the same in all categories at 9.4 points.

The new Station #2 located at 1369 Big Bear Highway was taken possession of on September 1, 2016. The construction loan continued until December 2016. On January 18, 2017, a new loan was signed with CFSB. The terms of this loan are principal balance \$1,085,000, fixed 4.5% rate for 120 months. The loan will then adjust annually based on prime plus 1.25%. The loan is set to be paid in full December 22, 2035. Current payment is \$7,125.59 monthly.

An open house was held on October 8, 2016 to celebrate the new station.

A contract with Marshall County Rescue Squad was entered into in October 2016 to rent the old station facility to Rescue Squad for boat storage. Rescue Squad is to be liable for insurance and property maintenance.

The Board approved \$1,200 for new ATV tires and \$800 for door nets for the ATV.

The Board approved Western Rivers as our property and casualty insurance provider for calendar year 2017.

The Board received \$11,000 of state aid money and used it appropriately to replace 6 sets of turnout gear that were expiring.

The Board received \$10,000 anonymous donation to purchase a FLIR camera.

Our fiscal year 2015-2016 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 a new 5 year contract on all 3 stations for security systems from The Security Guy.

The Board approved 4 firefighters training from Green River Fire School in February 2017.

The Board entered into an agreement on June 19, 2017 with West Kentucky Rural Electric Cooperative Corporation for construction of a 140' tower to be built on the property at 7548 Moors Camp Highway. WKRECC will be responsible for all construction and will own the tower. In exchange for lease of our land, East Marshall Fire will be able to use the top of the tower. EMFD plans to place communication equipment on top of the tower to expand our capabilities.

The property owned on Dusty Trail is still listed for sale. The Board renewed the contract with Mary Lou Childs for another 6 month term in April 2017.

The Board approved the budget for fiscal year 2017-2018. No changes were made in SPGE to FY 16-17 Budget.

EAST MARSHALL FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017

MAJOR FUND ANALYSIS

Revenue Recap:

The General Fund received most of its revenues from property taxes collected (94.0%), followed by state aid (3.1%) and donations (2.9%).

Expenditure Recap:

The General Fund expended most of its funds on debt service (29.3%), capital outlay (23.7%), insurance (10.4%), travel and training (10.1%), building and equipment maintenance (8.1%), utilities and telephone (6.9%), supplies (5.5%), expense allowance for the fire chief, assistant fire chief, and treasurer (3.9%), and other administrative expense (2.1%).

Comments on General Fund Budget Comparison:

The District's actual revenues were approximately \$20,000 above the budget, primarily from more property taxes and donations received than budgeted. The actual expenditures were approximately \$125,000 below the budget, with the largest differences being capital outlay of \$57,000 less than budgeted and operating expenses of \$35,000 less 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 Kimberley Lightfoot, Treasurer at 859-221-6362 or EMFDBoard@gmail.com.

EAST MARSHALL FIRE PROTECTION DISTRICT
STATEMENT OF NET POSITION
 June 30, 2017

	Governmental Activities
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 135,510
Receivables:	
Taxes	3,182
Prepaid expenses	7,889
Total Current Assets	146,581
Noncurrent Assets:	
Capital assets	3,960,936
Less: Accumulated depreciation	(1,755,939)
Total Noncurrent Assets	2,204,997
TOTAL ASSETS	\$ 2,351,578
 LIABILITIES:	
Current Liabilities:	
Accounts payable	\$ 6,475
Current portion of note payable	38,964
Total Current Liabilities	45,439
Noncurrent Liabilities:	
Note payable	1,013,030
Total Noncurrent Liabilities	1,013,030
TOTAL LIABILITIES	\$ 1,058,469
 NET POSITION:	
Net investment in capital assets	\$ 1,153,003
Unrestricted	140,106
TOTAL NET POSITION	\$ 1,293,109

See Notes to Financial Statements

EAST MARSHALL FIRE PROTECTION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Charges for Services</u>	Program Revenues		Net Expense (Revenue) and Changes in Net Position
			<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
Public safety:					
Fire	\$ 359,405	\$ 5	\$ 10,000	\$ 11,000	\$ (338,400)
Total governmental activities	<u>359,405</u>	<u>5</u>	<u>10,000</u>	<u>11,000</u>	<u>(338,400)</u>
Total primary government	<u>\$ 359,405</u>	<u>\$ 5</u>	<u>\$ 10,000</u>	<u>\$ 11,000</u>	<u>(338,400)</u>
General Revenues:					
Taxes:					
Property					330,117
Interest					162
Total general revenues					<u>330,279</u>
Change in net position					<u>(8,121)</u>
Net Position at July 1, 2016					<u>1,301,230</u>
Net Position at June 30, 2017					<u>\$ 1,293,109</u>

See Notes to Financial Statements

EAST MARSHALL FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Construction Fund	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ 135,510	\$ 0	\$ 135,510
Receivables			
Taxes	3,182	0	3,182
Prepays	7,889	0	7,889
TOTAL ASSETS	\$ 146,581	\$ 0	\$ 146,581
LIABILITIES AND FUND BALANCE:			
LIABILITIES:			
Accounts payable	\$ 6,475	\$ 0	\$ 6,475
TOTAL LIABILITIES	6,475	0	6,475
FUND BALANCES:			
Nonspendable - prepaids	7,889	0	7,889
Unassigned	132,217	0	132,217
TOTAL FUND BALANCES	140,106	0	140,106
TOTAL LIABILITIES AND FUND BALANCES	\$ 146,581	\$ 0	\$ 146,581

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, 2017

Total fund balance per fund financial statements	\$	140,106
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		2,204,997
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		(1,051,994)
		<hr/>
Net position of governmental activities	\$	<u>1,293,109</u>

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, 2017

	General Fund	Construction Fund	Total Governmental Funds
REVENUES:			
Property taxes	\$ 330,117	\$ 0	\$ 330,117
State aid	11,000	0	11,000
Donations	10,000	0	10,000
Charges for services	5	0	5
Interest	162	0	162
TOTAL REVENUES	351,284	0	351,284
EXPENDITURES:			
Current:			
Advertising	490	0	490
Board member fees	1,925	0	1,925
Building and grounds maintenance	8,480	0	8,480
Chiefs' expense allowance & treasurer fee	9,000	0	9,000
Dues and subscriptions	660	0	660
Equipment maintenance	12,952	0	12,952
Gas and oil	2,111	0	2,111
Insurance	28,842	0	28,842
Meals	2,422	0	2,422
Miscellaneous	964	0	964
Office and station supplies	13,212	0	13,212
Professional fees	1,215	0	1,215
Service agreements	956	0	956
Telephone	4,006	0	4,006
Training	27,461	0	27,461
Travel	451	0	451
Utilities	15,144	0	15,144
Capital outlay:			
Building, equipment, expansion, upgrade	65,829	145,257	211,086
Debt service:			
Note principal payments	33,006	0	33,006
Note interest payments	48,109	0	48,109
TOTAL EXPENDITURES	277,235	145,257	422,492
Excess (deficit) of revenues over (under) expenditures before other financing sources (uses)	74,049	(145,257)	(71,208)
OTHER FINANCING SOURCES (USES):			
Proceeds from note payable	0	145,257	145,257
TOTAL OTHER FINANCING SOURCES (USES)	0	145,257	145,257
Net change in fund balance	74,049	0	74,049
Fund Balance, July 1, 2016	66,057	0	66,057
FUND BALANCE, JUNE 30, 2017	\$ 140,106	\$ 0	\$ 140,106

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, 2017

Net change in fund balances - total governmental funds	\$	74,049
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 \$211,086 exceeds depreciation of \$(181,005)		30,081
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.		(112,251)
		(112,251)
Change in net position of governmental activities	\$	(8,121)

See Notes to Financial Statements

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

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, 2017.

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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, 2017 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, 2017

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 January 12, 2018, the date the financial statements were available to be issued.

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

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, 2017, 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 \$135,510 and the bank balances of the District's deposits were \$135,956. 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 2017 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, 2017

NOTE 5 - CAPITAL ASSETS

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

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2017</u>
Governmental Activities:				
Historical Cost:				
Land	\$ 69,432	\$ 0	\$ 0	\$ 69,432
Land improvements	9,000	0	0	9,000
Building & improvements	856,350	1,207,563	0	2,063,913
Infrastructure	0	7,636	0	7,636
Vehicles & equipment	1,759,386	51,569	0	1,810,955
Construction in progress	<u>1,133,276</u>	<u>74,287</u>	<u>1,207,563</u>	<u>0</u>
Total	<u>3,827,444</u>	<u>1,341,055</u>	<u>1,207,563</u>	<u>3,960,936</u>
Accumulated depreciation:				
Land improvements	2,015	321	0	2,336
Building & improvements	328,392	37,125	0	365,517
Vehicles & equipment	<u>1,244,527</u>	<u>143,559</u>	<u>0</u>	<u>1,388,086</u>
Total	<u>1,574,934</u>	<u>181,005</u>	<u>0</u>	<u>1,755,939</u>
Capital Assets, Net	<u>\$ 2,252,510</u>	<u>\$ 1,160,050</u>	<u>\$ 1,207,563</u>	<u>\$ 2,204,997</u>

Depreciation expense was charged to the governmental functions as follows:

Public safety-fire department	\$181,005
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NOTE 6 - LONG-TERM LIABILITIES

On December 22, 2015, the District obtained a construction line of credit from a local bank with a maximum amount of \$1,235,000. On December 22, 2016, the construction loan was converted to a fixed rate loan in the amount of \$1,085,000. During the construction phase, interest only was payable on the loan. Changes during fiscal year 2017 and balances as of June 30, 2017, including the current portions, of the District were as follows:

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2017</u>	Due Within <u>One Year</u>
Governmental Activities:					
Note Payable:					
CFSB	\$ 939,743	\$ 145,257	\$ 33,006	\$ 1,051,994	\$ 38,964
Total	<u>\$ 939,743</u>	<u>\$ 145,257</u>	<u>\$ 33,006</u>	<u>\$ 1,051,994</u>	<u>\$ 38,964</u>

EAST MARSHALL FIRE PROTECTION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2017

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Principal and interest requirements to retire the District's long-term obligations were as follows:

Year Ended <u>June 30</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	\$ 46,543	\$ 38,964	\$ 85,507
2019	44,753	40,755	85,508
2020	42,880	42,627	85,507
2021	40,922	44,585	85,507
2022	38,874	46,633	85,507
2023-2027	160,197	267,339	427,536
2028-2032	92,882	334,653	427,535
2033-2035	16,533	236,438	252,971
	<u>\$ 483,584</u>	<u>\$ 1,051,994</u>	<u>\$ 1,535,578</u>

Other information on the District's long-term indebtedness is summarized below:

<u>Obligation</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Principal Balance</u>	<u>Security</u>
Note Payable:				
CFSB	4.50%	06/22/35	\$1,051,994	Fire Station

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.

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 \$134,165 for personal property, \$2,827,251 for the buildings, and \$230,973 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.

**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, 2017

	Original	Final	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Property taxes	\$ 320,000	\$ 320,000	\$ 330,117	\$ 10,117
State aid	11,000	11,000	11,000	0
Donations	0	0	10,000	10,000
Charges for services	0	0	5	5
Interest	150	150	162	12
TOTAL REVENUES	<u>331,150</u>	<u>331,150</u>	<u>351,284</u>	<u>20,134</u>
EXPENDITURES:				
Current:				
Personnel	36,100	36,100	34,880	1,220
Operations	122,000	122,000	87,408	34,592
Administration	20,700	20,700	8,003	12,697
Capital outlay	123,179	123,179	65,829	57,350
Debt service	100,000	100,000	81,115	18,885
TOTAL EXPENDITURES	<u>401,979</u>	<u>401,979</u>	<u>277,235</u>	<u>124,744</u>
Net change in fund balance	(70,829)	(70,829)	74,049	144,878
Fund Balance, July 1, 2016	<u>70,829</u>	<u>70,829</u>	<u>66,057</u>	<u>(4,772)</u>
FUND BALANCE, JUNE 30, 2017	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 140,106</u>	<u>\$ 140,106</u>

See Notes to Financial Statements

ADDITIONAL REPORTS

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

To the Board of Trustees
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, 2017, 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 January 12, 2018.

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
January 12, 2018