

INDEPENDENCE FIRE DISTRICT

FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

**INDEPENDENCE FIRE DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2019**

TABLE OF CONTENTS

	<u>Page</u>
Board of Commissioners.....	1
Independent Auditor's Report.....	2-3
Management's Discussion and Analysis.....	4-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	8
Statement of Activities.....	9
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	10
Statement of Revenues, Expenditures and Changes in	
Fund Balances - Governmental Funds.....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities.....	12
Notes to Financial Statements.....	13-28
Required Supplementary Information	
Budgetary Comparison Schedule - Budget to Actual - General Fund.....	29
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure.....	30
Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure.....	31
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	32-33

INDEPENDENCE FIRE DISTRICT

BOARD OF COMMISSIONERS

For the Year Ended June 30, 2019

Board of Commissioners

<u>Chairman</u>	<u>Term Expires</u>
Bill Eggelston	July 2020
<u>Treasurer</u>	
Larry Vogelwohl	July 2022
<u>Secretary</u>	
Josh Cox	July 2023
<u>Boardmembers</u>	
Artie Anderson	July 2021
Gerald Cook	July 20122
Dan Richman	July 2021
Richard Messignschlager	July 2020



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**To the Board of Commissioners
Independence Fire District**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Independence Fire District, as of and for the year ended June 30, 2019, 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.

-Auditor's Responsibility

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

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

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

-Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Independence Fire District as of June 30, 2019, 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* on pages 4-7, the budgetary comparison schedule on page 29, and the pension and OPEB disclosures on pages 30-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019, on our consideration of the Independence Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Independence Fire District's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 25, 2019

**Independence Fire District
Management's Discussion and Analysis
For the Year Ended June 30, 2019**

As Management of the Independence Fire District we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District as of and for the year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements and supplementary information beginning on page 8.

Fiscal Year 2018-2019 Financial Highlights

Government-wide:

- The liabilities of the District exceeded the assets at June 30, 2019, by \$5,561,171 (net position).
- Net position decreased by \$1,041,788.
- Unrestricted net position is (\$8,958,304). The increase in fund balance the District experienced in operations is offset by the inclusion of pension reporting for GASB 68 and 75 (noted on page 7 and elsewhere in the financial statements).

Overview of the Financial Statements

Management's Discussion and Analysis serves as an introduction to the District's basic financial statements comprised of the government-wide financial statements and fund financial statements. These two sets of financial statements provide the reader with two viewpoints of the District's financial activity and financial position.

Government-wide Financial Statements are designed to provide readers with a broad overview of the Independence Fire District's finances, in a manner similar to private-sector business. These statements can be found on pages 8-9 of this report.

Statement of Net Position – presents information on the District as a whole, including all the District's capital assets and long-term liabilities. The difference in the District's assets and liabilities is reported as net position.

Statement of Activities – presents the current year's revenues and expenses and other information showing how the District's net position changed during the year. The change in net position is 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 reported in this statement will impact cash flows in future fiscal years.

Fund Financial Statements typically report the District's operations in more detail than the government-wide statements and measure only current revenues, expenses and fund balances. Fund financial statements report purchases of capital assets and payments on debt as an expense in the fund; proceeds from loans are reported as an "other financing source".

Government-Wide Financial Analysis

Net position serves as a useful indicator of the Fire District's financial position. The table below presents an analysis of the District's net position as of June 30, 2019, in comparison to the previous fiscal year ending June 30, 2018.

Statement of Net Position

	June 30, 2019	June 30, 2018
Assets		
Current and other assets	\$ 2,618,600	\$ 2,371,628
Capital assets	3,878,576	3,462,488
Deferred outflows of resources	4,369,412	5,319,015
Total Assets and Deferred Outflows of Resources	<u>10,866,588</u>	<u>11,153,131</u>
Liabilities		
Other liabilities	303,343	309,614
Long term liabilities	14,706,600	14,388,764
Deferred inflows of resources	1,417,816	974,136
Total Liabilities and Deferred Inflows of Resources	<u>16,427,759</u>	<u>15,672,514</u>
Net Position		
Net investment in capital assets	3,307,688	2,985,531
Restricted for equipment replacement	89,445	22,280
Unrestricted	<u>(8,958,304)</u>	<u>(7,527,194)</u>
Total Net Position	<u>\$ (5,561,171)</u>	<u>\$ (4,519,383)</u>

Net Investment in Capital Assets – \$3,307,688 of the District's net position is fixed assets less depreciation and debt compared to \$2,985,531 for fiscal year ending June 30, 2018. Increases and reductions to Net Investment in Capital Assets are by acquisitions, depreciation expense and changes in debt during the year.

Unrestricted – the District's unrestricted net position at June 30, 2019 is (\$8,958,304). Without the net effect of the \$11,184,116 GASB 68 pension liability and GASB 75 OPEB liability, unrestricted net position would be \$2,225,812 the amount available to meet the District's ongoing obligations compared to \$2,173,902 for the fiscal year ending June 30, 2018.

Statement of Activities

	June 30, 2019	June 30, 2018
General Revenues		
Tax assessments	\$ 4,711,473	\$ 4,410,541
Intergovernmental grants	297,790	345,924
Charges for services	615,082	570,294
Other revenues	39,083	22,102
Total General Revenues	5,663,428	5,348,861
Expenditures		
Operating	6,705,216	6,384,393
Total Expenditures	6,705,216	6,384,393
Increase (decrease) of revenues over (under) expenditures	(1,041,788)	(1,035,532)
Net position, beginning	(4,519,383)	(1,439,720)
Prior Period Adjustment	-	(2,044,131)
Net position, ending	\$ (5,561,171)	\$ (4,519,383)

Revenues – primarily are generated by taxes assessed on real, personal and motor vehicle values and charges for ambulance services. Overall revenues increased 6% during the fiscal year.

Expenditures – the District's operating expenditures increased 5% from fiscal year ending June 30, 2018.

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 independence Fire District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Independence Fire District uses only one governmental fund, the General Fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Independence Fire District maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

The Independence Fire District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 10-11 of this report.

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. The notes to the financial statements can be found on pages 13-28 of this report.

Pension and Post Employment Benefit Liabilities

The Independence Fire District is required, by Governmental Accounting Standards Board Statements No. 68 and No. 75, to display its proportionate share of the unfunded liability of the Kentucky Retirement System's County Employee Retirement System (CERS), multiple employer, cost sharing, defined benefit pension and other post-employment benefits (OPEB) plans, in which the Independence Fire District is a participant. Due to these requirements, a FY 2019 net pension liability of \$14,135,712 was recognized in the government-wide statement of net position. This liability, along with its related deferred outflows and inflows of resources, contributed to a net \$1,483,019 increase of pension and OPEB expenses in the statement of activities. Detailed information on these pension and OPEB recognitions can be found in Note 5 in the Notes to the Financial Statements and in the *Required Supplementary Information – Multiple Employer, Cost Sharing, Defined Benefit Pension and Post-Employment Benefits (OPEB) Plans Disclosure*.

Contacting the Fire Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Independence Fire District's finances and to show accountability for the money it receives. If you have any questions about this report or need additional information, contact the Treasurer at Independence Fire District, 1980 Delaware Crossing, Independence, KY 41051.

INDEPENDENCE FIRE DISTRICT STATEMENT OF NET POSITION June 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 1,976,381
Investments	450,141
Taxes receivable	40,240
Accounts receivable	62,393
Intergovernmental receivable	89,445
Capital assets, net of depreciation	<u>3,878,576</u>
TOTAL ASSETS	<u>6,497,176</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow of resources related to pensions and OPEB	<u>4,369,412</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>4,369,412</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>10,866,588</u>
LIABILITIES	
Accounts payable	169,121
Compensated absences	134,222
Net pension and OPEB liability	14,135,712
Long-term liabilities:	
Due within one year	187,719
Due in more than one year	<u>383,169</u>
TOTAL LIABILITIES	15,009,943
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow of resources related to pensions and OPEB	<u>1,417,816</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>16,427,759</u>
NET POSITION	
Net investment in capital assets	3,307,688
Restricted for:	
Equipment replacement	89,445
Unrestricted	<u>(8,958,304)</u>
TOTAL NET POSITION	<u><u>\$ (5,561,171)</u></u>

INDEPENDENCE FIRE DISTRICT STATEMENT OF ACTIVITIES For the Year Ended June 30, 2019
--

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government				
General government	\$ 6,705,216	\$ 615,082	\$ 297,790	\$ (5,792,344)
Total	<u>6,705,216</u>	<u>615,082</u>	<u>297,790</u>	<u>(5,792,344)</u>
Total Primary Government	<u>\$ 6,705,216</u>	<u>\$ 615,082</u>	<u>\$ 297,790</u>	<u>(5,792,344)</u>
		General revenues		
		Property and other taxes		4,711,473
		Investment income		17,128
		Other revenues		21,955
		Total general revenues		<u>4,750,556</u>
		Change in net position		(1,041,788)
		Net position, beginning		(4,519,383)
		Net position, ending		<u>\$ (5,561,171)</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENCE FIRE DISTRICT BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2019
--

	Total General Fund
ASSETS	
Cash and cash equivalents	\$ 1,976,381
Investments	450,141
Taxes receivable	40,240
Accounts receivable	62,393
Intergovernmental receivable	89,445
TOTAL ASSETS	\$ 2,618,600
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	<u>\$ 169,121</u>
FUND BALANCES	
Restricted	89,445
Unassigned	<u>2,360,034</u>
TOTAL GOVERNMENTAL FUND BALANCES	<u>2,449,479</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 2,618,600</u></u>
Reconciliation of Fund Balances to the Statement of Net Position	
Total Fund Balance for Governmental Funds	\$ 2,449,479
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assests used in govenmental activities are not financial resources and therefore are not reported in the funds	3,878,576
Long-term liabilities are not due and payable in currecnt period and therefore are not included in the funds	
Long-term debt	(570,888)
Compensated absences	(134,222)
Net pension liability	(10,917,156)
Net OPEB liability	(3,218,556)
Deferred outflows related to pension	3,101,445
Deferred outflows related to OPEB	1,267,967
Deferred inflows related to pension	(697,605)
Deferred inflows related to OPEB	<u>(720,211)</u>
Net Position of Governmental Activities	<u><u>\$ (5,561,171)</u></u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENCE FIRE DISTRICT STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS For the Year Ended June 30, 2019
--

	General Fund
REVENUES	
Taxes	\$ 4,711,473
Charges for services	615,082
Intergovernmental	208,716
Grants and contributions	89,074
Investment earnings	17,128
Other	21,955
TOTAL REVENUES	<u>5,663,428</u>
EXPENDITURES	
General government	5,020,282
Capital expenditures	621,557
Debt service	
Principal	170,879
Interest	17,478
TOTAL EXPENDITURES	<u>5,830,196</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(166,768)
OTHER FINANCING SOURCES	
Proceeds from loans	<u>264,811</u>
NET CHANGE IN FUND BALANCE	98,043
FUND BALANCE, BEGINNING OF YEAR	<u>2,351,436</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 2,449,479</u></u>

The accompanying notes are an integral part of these financial statements.

<p>INDEPENDENCE FIRE 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, 2019</p>

Net change in fund balances - total governmental funds	\$ 98,043
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
<p>Other financing sources, such as proceeds from loans, are considered revenues in the funds, however, they are recorded as long term debt on the Statement of Net Position</p>	(264,811)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense:</p>	
Depreciation expense	(205,469)
Capital purchases	621,557
<p>Expenses reported in the statement of activities that do not require current financial resources are not reported as expenses in the funds</p>	
Compensated Absences	21,032
<p>Governmental funds report District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employer contributions is reported as pension expense</p>	
Cost of benefits earned - pension	(1,206,756)
Cost of benefits earned - OPEB	(276,263)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	<u>170,879</u>
Change in net position of governmental activities	<u>\$ (1,041,788)</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENCE FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Independence Fire District (District) was established under KRS Chapter 75 to provide fire protection for Independence County, Kentucky. The District receives revenue from the office of the Sheriff of Kenton County from the collection of taxes assessed on real and personal property values, motor vehicle values and collection of corporation franchise fees within its district. The District is not included in any other governmental reporting entity, because Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. The District is exempt from federal and state income taxes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial statements include all the funds and activity of the primary government. The primary government consists of all the organizations, activities, and functions that are not legally separate from the District. The District has no component units or entities for which the government is considered to be financially accountable.

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for all of the non-fiduciary activities of the primary government. Generally, the effect of inter-fund activity has been removed from these statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expense and program revenues associated with a distinct functional activity. Program revenues include: charges for services, and other charges to users of the District's services; operating grants and contributions which finance annual operating activities including restricted investment income; and capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions on the program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

Fund Financial Statements

Fund financial statements, as applicable, are provided for governmental funds.

Fund Types

The accounts of the District are organized into funds, which are considered to be separate accounting entities. The District's funds are described below; the District has just one fund.

Governmental Funds

Governmental funds are accounted for using the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period. The District uses one governmental fund, the general fund.

Property taxes are the District's primary source of revenue and are levied on qualifying property. Property tax revenues are recognized when they become levied. No allowance for uncollectible receivable is considered necessary. On January 1, the bill become delinquent and penalties and interest may be assessed by the District. A lien may be placed on the property on January 1.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District maintains its books, records and accounts on the modified cash basis of accounting. Under this basis, fees receivable and revenue are recorded as income when collected rather than when earned and expenses are recorded when paid rather than when incurred. The accompanying financial statements are prepared on the modified accrual basis and therefore present the District's assets and liabilities resulting from accrual transactions and its revenue earned and expenses incurred, rather than revenue collected and expenses paid. These statements also include a provision for depreciation of buildings, improvements and equipment.

The government-wide financial statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues when grantor eligibility requirements are met.

The 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. The Fire Authority considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only in the year when payment is due. Major revenue sources where accrual is most likely to occur include grants and charges for services.

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

Principal operating expenses are the costs of providing public safety services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Total fund balance of the governmental fund is classified as *unassigned*, which is all residual funds not included in non-spendable, committed, restricted, or assigned fund balances.

Use of Estimates

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

Budgets

The District is required by state law to adopt annual budgets for the General Fund and submit to the Kenton County Fiscal Court. Each budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by expense category and may not legally exceed budgeted appropriations at the function level. Section 91A.030 of the Kentucky Revised Statutes prohibits expenditures in excess of budgeted amounts and prohibits budgeting of appropriations in excess of revenues.

The District uses the following procedures and policies in establishing budgetary data reflected in the financial statements:

- 1) Prior to June 1, the Chief submits to the Board of Trustees a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted by the Board.
- 4) The Chief is required by Kentucky Revised Statutes to present a quarterly report to the Board of Trustees explaining any variance from the approved budget.
- 5) Appropriations continue in effect until a new budget is adopted.
- 6) The Board of Trustees may authorize supplemental appropriations during the year.

Cash Equivalents

For the purpose of the statement of net position and balance sheet presentation, the District considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

INDEPENDENCE FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

Concentrations of Credit Risk

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of temporary cash investments.

The District maintains deposits with the financial institutions insured by the Federal Deposit Insurance Corporation (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, 2019, The District's deposits are entirely insured and/or collateralized with securities by Fifth Third Bank on the District's behalf.

Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the government funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets 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 deletions during the year. Improvements are capitalized if value is added and the life of the asset is materially extended; the costs of normal maintenance and repairs are expensed in the current period.

Depreciation

All reported capital assets are depreciated, except land. 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

Buildings	40 years
Vehicles	5-10 years
Equipment	5-10 years

Federal Income Tax

Per KRS 75.010 through KRS 750.030 of the Kentucky Revised Statutes the District is a political sub-division of the State of Kentucky and is exempt from federal and state income taxes.

Investment Income

Investment income is reported when earned and is considered available for unrestricted purpose unless specifically restricted by the board of trustees.

Donated Services

Donated services are normally reflected as revenue in the financial statements at the estimated value of the services received with a corresponding charge to expense. No amounts are reflected for donated services unless an objective basis is available to measure the value of such services.

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

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 Employee Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported to CERS. For this purpose, benefit payment (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Post-Employment Health Insurance Benefits Other than Pensions (OPEB)

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

NOTE 2 – CAPITAL ASSETS AND DEPRECIATION

	Balance at <u>June 30, 2018</u>	Additions	Deletions	Balance at <u>June 30, 2019</u>
Capital assets				
Land	\$ 220,000	\$ -	\$ -	\$ 220,000
Buildings	4,307,666	-	-	4,307,666
Vehicles	1,752,759	505,050	-	2,257,809
Equipment	710,815	116,506	-	827,321
Total capital assets	<u>6,991,240</u>	<u>621,556</u>	<u>-</u>	<u>7,612,796</u>
Less accumulated depreciation for:				
Buildings	1,648,961	106,728	-	1,755,689
Vehicles	1,348,171	70,254	-	1,418,425
Equipment	531,620	28,486	-	560,106
Total accumulated depreciation	<u>3,528,752</u>	<u>205,468</u>	<u>-</u>	<u>3,734,220</u>
Capital assets, net	<u>\$ 3,462,488</u>	<u>\$ 416,088</u>	<u>\$ -</u>	<u>\$ 3,878,576</u>

During fiscal year 2019, depreciation was charged to governmental function as follows:

General government	\$205,468
--------------------	-----------

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

NOTE 3 – COMPENSATED ABSENCES

The District reports compensated absences in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. It is the District’s policy to permit employees to accumulate earned but unused vacation pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when earned in the government-wide financial statements. At June 30, 2019 accrued vacation pay is \$134,221.

NOTE 4 – LONG TERM DEBT

Cox Road Station Lease – In fiscal year 2012, the District entered into a lease agreement for \$851,266 with Fifth Third Bank to refinance the outstanding lease on the Cox Road Fire Station. The lease is payable in monthly installments of \$7,918 for 15 years and carries an interest rate of 2.26%. Final payment is due in June 2022. The loan is secured by the firehouse property. Principal and interest paid in fiscal year 2019 was \$87,720 and \$7,301 respectively. The balance on this lease was \$275,363 at June 30, 2019.

Ambulance Lease – On November 23, 2015, the District entered into a lease agreement with Fifth Third Bank to borrow \$230,000 to assist with the purchase two Horton Type I ambulances. The lease is payable in monthly installments of \$4,027 for 5 years and carries an interest rate of 2.02%. The lease is secured by the vehicles. Principal and interest paid in fiscal year 2019 is \$46,448 and \$1,872, respectively. The balance of this loan was \$67,426 at June 30, 2019; final payment will be November 2022. Total cost of the ambulances, which were delivered in July 2016, was \$337,244.

Pumper Lease - On August 31, 2018, the District entered into a lease agreement with Fifth Third Bank to borrow \$264,810 to assist with the purchase of a pumper fire truck. The lease is payable in monthly installments of \$4,835 for 5 years and carries an interest rate of 3.65%. The lease is secured by the truck. Principal and interest paid in fiscal year 2019 is \$36,712 and \$6,805, respectively. The balance of this loan was \$228,098 at June 30, 2019; final payment will be September 2023. Total cost of the pumper, which was delivered in September 2019, was \$452,571.

A summary of the changes in the long-term debt obligations is as follows:

Debt Type	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019	Current Portion
2012 Fifth Third lease (Cox Road Firehouse)	\$ 363,083	\$ -	\$ (87,720)	\$ 275,363	\$ 89,788
2015 Fifth Third lease (Horton Ambulances)	113,874	-	(46,448)	67,426	47,395
2019 Fifth Third Lease (Pumper)	-	264,811	(36,712)	228,099	50,536
Total	\$ 476,957	\$ 264,811	\$ (170,880)	\$ 570,888	\$ 187,719

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

The following is a schedule of future debt service requirements to maturity as of June 30, 2019:

Year	Principal	Interest	Total Debt Service
2020	\$ 187,105	\$ 14,381	\$ 201,486
2021	164,656	8,644	173,300
2022	148,334	4,833	153,167
2023	70,793	1,734	72,527
Total	<u>\$ 570,888</u>	<u>\$ 29,592</u>	<u>\$ 600,480</u>

NOTE 5 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM

Plan description - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB). The District has only Hazardous Duty employees, there is not a Non-Hazardous component of the District’s plan.

PENSION PLAN

Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	At least one month of hazardous duty service credit or 55 years old
	Reduced retirement	15 years service and 50 years old or any age with 20 years service
Tier 2	Participation date	September 1, 2008 - December 31,2013
	Unreduced retirement	At least 5 years of hazardous duty service credit and 60 years old
	Reduced retirement	15 years service and 50 years old or any age with 25 years service
Tier 3	Participation date	On or after January 1, 2014
	Unreduced retirement	At least 5 years of hazardous duty service credit and 60 years old or 25 or more years of service, with no age requirement
	Reduced retirement	Not available

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate or pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required pension plan contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	8%
Tier 2	8%
Tier 3	8%

Contributions

For hazardous duty employees, the District contributed 35.34%, of which 24.86% was for the pension fund and 10.47% was for the health insurance fund, of the hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2019.

The District made all required contributions for the hazardous Plan pension obligation for the fiscal year in the amount of \$945,780 of which \$665,499 was for the pension fund and \$280,281 was for the health insurance fund.

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

At June 30, 2019, the District reported a liability of \$10,917,156 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the District's employer allocation proportion was 0.45141% of the total CERS hazardous duty employees. For the year ended June 30, 2019, the District recognized pension expense of \$1,206,756 in addition to its \$665,499 pension contribution.

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 868,821	\$ -
Net difference between projected actual earnings onn plan investments	404,648	(527,788)
Changes of assumptions	1,162,094	-
Changes in proportion and difference between contributions and proportionate share of contributions	383	(169,817)
Contributions subsequent to the tmeasurement date	665,499	-
	<u>\$ 3,101,445</u>	<u>\$ (697,605)</u>

The District's contributions subsequent to the measurement date of \$665,499 will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2019	\$ 1,267,446
2020	582,330
2021	(62,135)
2022	(49,299)
	<u>\$ 1,738,342</u>

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017
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
Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05%, average, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB

INDEPENDENCE FIRE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

to 2013 (1 year set-back 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 CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful 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.

Changes of Assumptions

There have been no changes in actuarial assumptions since June 2017. In June 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (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 assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	5.79%
Combined fixed income	24%	6.71%
Real return (diversified inflation strategies)	10%	7.00%
Absolute return (diversified hedge funds)	10%	5.00%
Private equity	10%	6.50%
Real estate	5%	9.00%
Global bonds	4%	3.00%
Cash	2%	1.50%

Discount Rate

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	Proportionate Share of Net Pension Liability		
	1% Decrease 5.25%	Current Rate 6.25%	1% Increase 7.25%
Total	1,367,843	10,917,156	8,634,404

HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$15/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$19.48 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$19.48 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	None
Tier 2	1%
Tier 3	1%

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the year ended June 30, 2019, was 10.47% of covered-employee payroll for hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$280,281 for hazardous duty employees for the year ended June 30, 2019.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the District reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At June 30, 2018, the District's proportion of the hazardous plan was 0.451436%.

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

For the year ended June 30, 2019, the District recognized an OPEB expense of \$276,263. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow	Deferred Inflow
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ -	\$ (359,684)
Net difference between projected actual earnings on plan investments	-	(305,981)
Changes of assumptions	987,686	(8,804)
Changes in proportion and differences between contributions and proportionate share of contributions	-	(45,742)
Contributions subsequent to the measurement date	<u>280,281</u>	<u>-</u>
	<u>\$ 1,267,967</u>	<u>\$ (720,211)</u>

The District's contributions subsequent to the measurement date of \$280,281 for hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
<u> </u>	<u> </u>
2019	\$ 180,279
2020	180,279
2021	2,635
2022	(95,719)
2023	-
Thereafter	-
	<u>\$ 267,474</u>

Actuarial Assumptions

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

Actuarial cost method:	Entry Age Normal
Asset valuation method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method:	Level, percent of pay
Amortization period:	25 years, closed
Payroll growth rate:	2.00%
Investment return:	6.25%
Inflation	2.30%

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

Salary increases:	3.05%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend rates (Pre-65):	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare trend rates (Post-65):	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study calculated as of June 30, 2015.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are as follows:

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	CERS Health Insurance Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	5.79%
Combined fixed income	24%	6.71%
Real return (diversified inflation strategies)	10%	7.00%
Absolute return (diversified hedge funds)	10%	5.00%
Private equity	10%	6.50%
Real estate	5%	9.00%
Global bonds	4%	3.00%
Cash	2%	1.50%

Changes of Assumptions

In June 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of salary increase was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

In 2018, the following changes were made to the discount rates:

- For the hazardous plan, the single discount rate changed from 5.96% to 5.97%

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

Discount Rate

The discount rate used to measure the total OPEB liability was 5.97% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.97% for the hazardous plan, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Discount rate, hazardous	4.97%	5.97%	6.97%
Net OPEB liability, hazardous	<u>\$ 4,473,951</u>	<u>\$ 3,218,556</u>	<u>\$ 2,213,579</u>

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

Healthcare cost trend rate	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Total	<u>\$ 2,191,992</u>	<u>\$ 3,218,556</u>	<u>\$ 4,489,998</u>

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the District has incurred commitments and is contingently liable as a guarantor or endorser of notes and leases. In cases where losses are possible but not probable, it is the District's belief that their ultimate resolution will not have a material effect on the District's financial position as of June 30, 2019, or the results of its operations for the year then ended.

INDEPENDENCE FIRE DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2019

NOTE 7 – RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The financial statements of the Independence Fire District were prepared in accordance with the comprehensive basis of accounting for organizations on the modified accrual basis. The integrity and consistency of these financial statements, and of other data presented in this report, are the responsibility of the District's trustees and may properly include some amounts that are based upon estimates and judgments.

The District is further responsible for maintaining a system of internal controls, including internal accounting control, which provides an appropriate division of responsibility and is designed to assure that the books and records reflect the transactions of the District and that its established policies and procedures are carefully followed. The system is constantly reviewed for its effectiveness and is augmented by written policies and guidelines, and the careful selection and training of qualified personnel.

NOTE 8 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 25, 2019, the date the financial statements were issued. No significant events have occurred through this date requiring adjustment to the financial statement or disclosures.

INDEPENDENCE FIRE DISTRICT BUDGETARY COMPARISON SCHEDULE - BUDGET TO ACTUAL - GENERAL FUND For the Year Ended June 30, 2019
--

	Budgeted Amounts			Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Revisions	Final		
Budgetary fund balance, July 1	\$ 2,351,436	\$ -	\$ 2,351,436	\$ 2,351,436	\$ -
Resources (inflows)					
Tax Revenue	4,512,472	161,009	4,673,481	4,711,473	37,992
Program Revenue	525,625	69,708	595,333	615,082	19,749
Grants and Contributions	229,749	92,652	322,401	297,790	(24,611)
Other Revenue	13,850	292,951	306,801	303,894	(2,907)
Amounts available for appropriation	<u>7,633,132</u>	<u>616,320</u>	<u>8,249,452</u>	<u>8,279,675</u>	<u>30,223</u>
Charges to appropriations (outflows)					
Debt Service	186,857	1,500	188,357	188,357	-
Other	286,750	(7,158)	279,592	298,988	(19,396)
Payroll Related	4,292,625	252,552	4,545,177	4,545,088	89
Station Expenses	78,200	4,209	82,409	84,223	(1,814)
Vehicle Expenses	89,200	(1,259)	87,941	91,983	(4,042)
Capital expenses	340,212	301,804	642,016	621,557	20,459
	-				
Total charges to appropriations	<u>5,273,844</u>	<u>551,648</u>	<u>5,825,492</u>	<u>5,830,196</u>	<u>(4,704)</u>
Budgetary fund balance, June 30	<u>\$ 2,359,288</u>	<u>\$ 64,672</u>	<u>\$ 2,423,960</u>	<u>\$ 2,449,479</u>	<u>\$ 25,519</u>

INDEPENDENCE FIRE DISTRICT

Required Supplementary Information - Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure-HAZARDOUS
For the Year Ended June 30, 2019

**Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.4514100%	0.4584270%	0.4704580%	0.0476294%	0.0476133%					
Proportionate share of the net pension liability (asset)	\$ 10,917,156	\$ 10,256,289	\$ 8,072,777	\$ 7,311,611	\$ 5,722,000					
Covered payroll in year of measurement	\$ 2,586,493	\$ 2,518,517	\$ 2,508,970	\$ 2,508,970	\$ 2,494,271					
Share of the net pension liability (asset) as a percentage of its covered payroll	422.08%	407.24%	321.76%	291.42%	229.41%					
Plan fiduciary net position as a percentage of total pension liability	49.26%	49.80%	55.50%	57.52%	63.46%					

**Schedule of the District's Contributions
County Employees' Retirement System (CERS)**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 665,499	\$ 580,877	\$ 545,398	\$ 508,317	\$ 572,435	\$ 543,003				
Actual contribution	665,499	580,877	545,398	508,317	572,435	543,003				
Contribution deficiency (excess)	-	-	-	-	-	-				
Covered payroll	\$ 2,676,987	\$ 2,586,493	\$ 2,512,517	\$ 2,508,970	\$ 2,494,271	\$ 2,494,271				
Contributions as a percentage of covered payroll	24.86%	22.46%	21.71%	20.26%	22.95%	21.77%				

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019
Changes of Assumptions**

The net pension liability as of June 30, 2019, is based on the June 30, 2018, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District's contributions and proportionate share of contributions are detailed in NOTE 5 in the Notes to the Financial Statements.

INDEPENDENCE FIRE DISTRICT

**Required Supplementary Information - Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure-HAZARDOUS
For the Year Ended June 30, 2019**

**Schedule of the District's Proportionate Share of the Net OPEB Liability
County Employees' Retirement System (CERS)**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net OPEB liability	0.451436%	0.458427%								
Proportionate share of the net OPEB liability (asset)	\$ 3,218,556	\$ 3,789,686								
Covered payroll in year of measurement	2,586,493	2,518,517								
Share of the net OPEB liability (asset) as a percentage of its covered payroll	124.44%	150.47%								
Plan fiduciary net position as a percentage of total OPEB liability	64.24%	59.00%								

**Schedule of the District's Contributions
County Employees' Retirement System (CERS)**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 280,281	\$ 244,649	\$ 238,252							
Actual contribution	280,281	244,649	238,252							
Contribution deficiency (excess)	-	-	-							
Covered payroll	2,676,987	2,586,493	2,518,517							
Contributions as a percentage of covered payroll	10.47%	9.46%	9.46%							

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019
Changes of Assumptions**

The net OPEB liability as of June 30, 2019, is based on the June 30, 2018, actuarial valuation.. The changes to the elements of the OPEB expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between District's contributions and proportionate share of contributions are detailed in NOTE 5 in the Notes to the Financial Statements.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**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 Commissioners
Independence Fire 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 Independence Fire District as of June 30, 2019 and the related notes to the financial statements which collectively comprise the Independence Fire District's financial statements, and have issued our report thereon dated October 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Independence Fire 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 Independence Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of Independence Fire 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Independence Fire 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 25, 2019