

**BOONE-FLORENCE
WATER COMMISSION
FINANCIAL STATEMENTS**

For the Years Ended June 30, 2015 and 2014

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**BOONE-FLORENCE
WATER COMMISSION
FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

Board of Commissioners

		<u>Appointed By:</u>	<u>Term Expires:</u>
Chairman	Robin Curry	Boone County	Oct. 31, 2018
Treasurer	Jeffrey P. Koenig	City of Florence	Oct. 31, 2017
Secretary	Jim Daugherty	Boone Co. Water	Oct. 31, 2016
Member	Charles Cain	Boone County	Oct. 31, 2017
Member	Pat Wingo	Boone County	Oct. 31, 2016

General Manager

Carl Cassell

Legal Counsel

Skees, Wilson & Nienaber

David A. Koenig

Independent Auditor's Report

To the Board of Commissioners
Boone-Florence Water Commission
Burlington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Boone-Florence Water Commission (Commission), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commission'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 business-type activities of Boone-Florence Water Commission as of June 30, 2015 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-8 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.

-Comparative Information

These financial statements are presented in comparative format with financial statements for the fiscal year ended June 30, 2014, audited by Anneken, Huey, and Moser, PLLC, who expressed an unmodified opinion. There were no *Emphasis of Matter* or *Other Matters* paragraphs included in the predecessor's audit report dated November 17, 2014.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2015 on our consideration of Boone-Florence Water Commission'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 Boone-Florence Water Commission's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
September 17, 2015

Management's Discussion and Analysis

As management of the Boone-Florence Water Commission, we offer readers of the Boone-Florence Water Commission's financial statements this narrative overview and analysis of the financial activities of the Boone-Florence Water Commission for the fiscal year ended June 30, 2015.

Financial Highlights

- The assets of the Boone-Florence Water Commission exceeded its liabilities at the close of the most recent fiscal year by \$11,982,835 (net position). Of this amount, \$5,666,623 (unrestricted net position) may be used to meet the Commission's ongoing obligations.
- The commission's total net position increased by \$1,006,431.
- The Boone-Florence Water Commission's total debt decreased by \$1,745,084 (5.6 percent) during the current fiscal year. The current portion of debt listed in the statement of net position includes the 2011 bond payable that will be paid off in December of 2015. This payment will be made out of the Bond Escrow Fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Boone-Florence Water Commission's basic financial statements. The Boone-Florence Water Commission's basic financial statements comprise three components: 1) Commission-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements.

Commission-wide Financial Statements

The Commission-wide financial statements are designed to provide readers with a broad overview of the Boone-Florence Water Commission finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Boone-Florence Water Commission assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Boone-Florence Water Commission is improving or deteriorating.

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

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 Boone-Florence Water Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Commission consists of one proprietary fund.

Proprietary Funds

The Boone-Florence Water Commission maintains one proprietary fund: Enterprise funds are used to report the same functions presented as business-type activities in the commission-wide financial statements. The Boone-Florence Water Commission uses an enterprise fund to account for all activities.

Proprietary funds provide the same type of information as the commission-wide financial statements, only in more detail.

Notes to the Financial Statements

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

Commission-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Boone-Florence Water Commission, assets exceeded liabilities by \$11,982,835 at the close of the most recent fiscal year.

Net Assets

	Business-type Activities	
	2015	2014
Current & other assets	\$ 12,608,422	\$ 12,254,747
Capital assets	27,718,710	28,662,122
Total Assets	40,327,132	40,916,869
Deferred outflows of resources	2,145,788	2,315,193
Total Assets and Deferred Outflow of Resources	42,472,920	43,232,062
Long-term liabilities	27,401,170	29,161,254
Other liabilities	2,595,053	2,543,956
Total Liabilities	29,996,223	31,705,210
Deferred inflows of resources	493,862	550,448
Total Liabilities and Deferred Inflow of Resources	30,490,085	32,255,658
Net investment in capital assets	(1,946,322)	(2,804,580)
Restricted	8,262,534	7,496,917
Unrestricted	5,666,623	6,284,067
Total Net Position	\$ 11,982,835	\$ 10,976,404

At the end of the current fiscal year, the Boone-Florence Water Commission is able to report positive balances in two of three categories of net assets: restricted and unrestricted. Amounts invested in capital net of related debt are negative due to the amount of debt related to the system being greater than the total book value of capital assets (net of depreciation). The same situation was true for the prior fiscal year.

There was a increase of \$765,617 in restricted net position reported in connection with the Boone-Florence Water Commission's business-type activities. These amounts represent the various funds restricted for the repayment of debt and ongoing construction needs.

The commission's net position increased by \$1,006,431 during the current fiscal year. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses.

Changes in Net Position

	Business-type Activities	
	2015	2014
Revenues:		
Program Revenues:		
Water Revenue	\$ 11,169,066	\$ 10,517,834
General Revenues:		
Interest Income	137,363	135,485
Earned Revenues on Yield Spread	56,586	56,586
Total Revenues	<u>11,363,015</u>	<u>10,709,905</u>
Expenses:		
Operating Expenses	9,176,826	8,614,374
Interest Expense	1,010,355	1,045,080
Contract Termination Fees	169,403	169,403
Total Expenses	<u>10,356,584</u>	<u>9,828,857</u>
Increase in Net Position	1,006,431	881,048
Beginning Net Position	10,976,404	10,095,356
Ending Net Position	<u>\$ 11,982,835</u>	<u>\$ 10,976,404</u>

Business-type Activities

Business-type activities increased the Boone-Florence Water Commission's net position by \$1,006,431, accounting for 100 percent of the total growth in the commission's net position. Key elements of this increase are as follows.

- Water Revenues for business-type activities increased by 6.2 percent as a result of increased water usage rates.
- Expenses to provide water service increased by 6.5 percent largely as a result of increases in water purchased and storage facility maintenance.

Financial Analysis of the Commission's Funds

As noted earlier, the Boone-Florence Water Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary Funds

The Boone-Florence Water Commission's proprietary fund provides the same type of information found in the Commission-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary fund at the end of the year amounted to \$5,666,623. Other factors concerning the finances of this fund have already been addressed in the discussion of the Boone-Florence Water Commission's business-type activities.

Capital Asset and Debt Administration

Capital Assets

The Boone-Florence Water Commission's investment in capital assets for its business type activities as of June 30, 2015, amounts to \$38,826,920. This investment in capital assets includes land, water system, improvements and construction in progress. There was no increase in the Boone-Florence Water Commission's investment in capital assets for the current fiscal year.

	Business-type Activities	
	2015	2014
Land	\$ 1,203,323	\$ 1,203,323
Water system	37,562,051	37,562,051
Improvements	54,429	54,429
Equipment	7,117	7,117
Construction in progress	-	-
Totals	<u>\$ 38,826,920</u>	<u>\$ 38,826,920</u>

Additional information on the Boone-Florence Water Commission's capital assets can be found in Note F and Note G in the Notes to the Financial Statements.

Long-term Debt

At the end of the current fiscal year, the Boone-Florence Water Commission had total debt outstanding of \$29,450,000. The Commission's debt represents bonds secured solely by the water sales of the Commission.

	Business-type Activities	
	2015	2014
2010 Revenue Bond Payable	\$ 29,065,000	\$ 29,310,000
2011 Revenue Bond Payable	385,000	1,895,000
Totals	<u>\$ 29,450,000</u>	<u>\$ 31,205,000</u>

Additional information on the Boone-Florence Water Commission's long term debt can be found in Note H and Note I in the Notes to the Financial Statements.

Subsequent Year's Budget

The budget for the Fiscal Year ended June 30, 2016 included the following major capital projects:

1. The commission approved expenditures amounting to \$ 41,500 for the Mt. Zion Project.

Requests for Information

This financial report is designed to provide a general overview of the Boone-Florence Water Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Commission office at 2475 Burlington Pike, Burlington, KY 41005.

Carl C. Cassell

Carl C. Cassell
General Manager

BOONE-FLORENCE WATER COMMISSION STATEMENTS OF NET POSITION June 30, 2015 and 2014
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ASSETS	2015	2014
Current Assets		
Cash and cash equivalents	\$ 3,162,967	\$ 3,646,627
Accounts receivable - customers	1,055,393	997,124
Accounts receivable on construction projects	8,492	2,295
Interest receivable	30,708	20,410
Prepaid insurance	6,283	6,149
Total Current Assets	<u>4,263,843</u>	<u>4,672,605</u>
Restricted Assets		
Certificates of deposit	3,873,650	3,217,170
Construction funds	214,908	219,777
Sinking funds	1,190,099	1,156,463
Bond reserve fund	3,065,922	2,988,732
Total Restricted Assets	<u>8,344,579</u>	<u>7,582,142</u>
Capital Assets		
Land	1,203,323	1,203,323
Water system	37,562,051	37,562,051
Improvements	54,429	54,429
Equipment	7,117	7,117
Construction in progress	-	-
Less: accumulated depreciation	<u>(11,108,210)</u>	<u>(10,164,798)</u>
Total Capital Assets, net of depreciation	<u>27,718,710</u>	<u>28,662,122</u>
TOTAL ASSETS	40,327,132	40,916,869
DEFERRED OUTFLOW OF RESOURCES		
Unamortized termination agreement costs, net of amortization	<u>2,145,788</u>	<u>2,315,193</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>42,472,920</u>	<u>43,232,062</u>

Continued on page 10

BOONE-FLORENCE WATER COMMISSION STATEMENTS OF NET POSITION - Continued June 30, 2015 and 2014
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LIABILITIES	<u>2015</u>	<u>2014</u>
Current Liabilities Payable from Current Assets		
Accounts payable - general	\$ 740,401	\$ 701,124
Current portion of bond payable	1,770,000	1,755,000
Withheld and accrued liabilities	2,607	2,607
Total Current Liabilities Payable from Current Assets	<u>2,513,008</u>	<u>2,458,731</u>
Current Liabilities Payable from Restricted Assets		
Accrued interest payable	82,045	85,225
Total Current Liabilities Payable from Restricted Assets	<u>82,045</u>	<u>85,225</u>
Long-Term Liabilities Payable from Restricted Assets		
Bonds payable	27,680,000	29,450,000
Plus: unamortized bond premium	5,406	18,381
Less: unamortized bond discount	(284,236)	(307,127)
Total Long-Term Liabilities Payable from Restricted Assets	<u>27,401,170</u>	<u>29,161,254</u>
TOTAL LIABILITIES	29,996,223	31,705,210
DEFERRED INFLOWS OF RESOURCES		
Deferred revenue on yield spread	<u>493,862</u>	<u>550,448</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>30,490,085</u>	<u>32,255,658</u>
NET POSITION		
Net investment in capital assets	(1,946,322)	(2,804,580)
Restricted	8,262,534	7,496,917
Unrestricted	<u>5,666,623</u>	<u>6,284,067</u>
TOTAL NET POSITION	<u>\$ 11,982,835</u>	<u>\$ 10,976,404</u>

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

BOONE-FLORENCE WATER COMMISSION**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION****For the Years Ended June 30, 2015 and 2014**

OPERATING REVENUES	2015	2014
Water sales	\$ 11,169,066	\$ 10,517,834
TOTAL OPERATING REVENUES	11,169,066	10,517,834
OPERATING EXPENSES		
Accounting	11,380	11,380
Contractual services	74,385	76,446
Depreciation expense	943,412	943,412
Insurance expense	18,237	17,732
Lawn care	7,160	6,840
Legal fees	23,323	7,380
Materials and supplies	1,452	1,595
Organizations and seminars	566	989
Postage and delivery	313	293
Purchased power	111,652	111,707
Purchased water	7,659,347	7,206,335
Salaries and wages - Commission	2,448	2,436
Salaries and wages - General Manager	69,870	69,870
Storage facility maintenance	234,822	138,628
Storm water runoff	894	874
Taxes other than income taxes	6,192	6,172
Telephone	11,373	12,285
TOTAL OPERATING EXPENSES	9,176,826	8,614,374
OPERATING INCOME	1,992,240	1,903,460
NON-OPERATING REVENUES (EXPENSES)		
Earned revenue on yield spread	56,586	56,586
Interest income	137,363	135,485
Interest expense	(1,010,355)	(1,045,080)
Amortization of contract termination cost	(169,403)	(169,403)
NET INCOME	1,006,431	881,048
NET POSITION, BEGINNING OF YEAR	10,976,404	10,095,356
NET POSITION, END OF THE YEAR	\$ 11,982,835	\$ 10,976,404

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

BOONE-FLORENCE WATER COMMISSION**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 11,110,797	\$ 10,448,829
Cash paid to suppliers for services and water	(8,121,958)	(7,509,854)
Cash paid to or on behalf of employees for services	(78,510)	(78,127)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,910,329</u>	<u>2,860,848</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>127,065</u>	<u>139,676</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
(Increase) decrease in restricted funds	(762,437)	487,000
Principal payments on long-term debt	(1,755,000)	(1,720,000)
Interest on long-term debt	(1,003,617)	(1,037,654)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,521,054)</u>	<u>(2,270,654)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(483,660)	729,870
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>3,646,627</u>	<u>2,916,757</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 3,162,967</u>	<u>\$ 3,646,627</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,992,240	\$ 1,903,460
Depreciation	943,412	943,412
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	(58,269)	(69,005)
Decrease (increase) in accounts receivable on construction projects	(6,197)	-
Decrease (increase) in prepaid insurance	(134)	(237)
Increase (decrease) in accounts payable	39,277	82,867
Increase (decrease) in accrued liabilities	-	351
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,910,329</u>	<u>\$ 2,860,848</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ (1,003,617)</u>	<u>\$ (1,094,240)</u>

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

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2015 and 2014

The Boone-Florence Water Commission (Commission) was formed on November 24, 1998 by an executive order of the Judge Executive of Boone County, Kentucky in accordance with K.R.S. 74.420. The Commission was formed to provide an integrated water delivery system to Boone County's two water service providers, the Boone County Water District and the City of Florence Water Department. The Commission is governed by a Board of Commissioners and is an independent reporting entity.

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Commission's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Commission applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The Commission has adopted GASB Statements 34 through 68, and related interpretations issued through June 30, 2015. Statement 34 and subsequent statements and interpretations required changes in terminology, format and content, as well as inclusion of the management's discussion and analysis as required supplementary information. The Commission does not pay into a retirement system for its one employee, therefore no GASB 68 disclosures are required.

All activities of the Commission are accounted for within a single proprietary (enterprise) reporting entity. Proprietary entities are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Commission is determined by its measurement focus. The transactions of the Commission are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net position. Net position (i.e., total assets net of total liabilities) are segregated into "net investment in capital assets"; "restricted"; and "unrestricted" components.

Prepays

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

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2015 and 2014

Allowance for Bad Debts

The Commission uses the direct write-off method to account for bad debts. If they used the allowance method, there would be no significant variation in recognizing bad debt expense.

Cash Equivalents

For purposes of the statements of net assets and cash flows, the Commission considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Income Tax Status

The Commission is exempt from federal and state income taxes since it is a political subdivision of the Boone County Court. Accordingly, the financial statements include no provision for income taxes.

Purchased Water Costs

The Commission is dependent on the Greater Cincinnati Water Works as its sole supplier of water. On March 2, 1999, the Commission signed an agreement with the City of Cincinnati to provide this water service for a period of at least 29 years.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Operating Revenues and Non-operating Revenues

Revenues have been classified as operating and non-operating. Operating revenues are those revenues that are directly generated from the sale of water to customers. Non-operating revenues are those revenues that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, sale of fixed assets and interest income.

Fair Value of Financial Instruments

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

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission currently only has one item that qualifies for reporting in this category. A previous water supplier imposed a severance penalty on the Commission for early termination of the contract. This penalty is set up as deferred termination costs and is being amortized over 30 years.

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2015 and 2014

NOTE D – BOONE-FLORENCE WATER COMMISSION WATER REVENUE BOND AND INTEREST RESERVE AND SINKING FUNDS

For the years ended June 30, 2015 and 2014, the Commission was required to maintain a sufficient portion of revenues to allow for principal and interest on its Series 2010 and 2011 bonds. In order to comply with the requirement of these bonds, the Commission maintained funds in five separate accounts consisting of two reserve funds and two payment (sinking) funds and one operating account as of June 30, 2015 and 2014. Monthly, funds are deposited into the 2010 bond and 2011 bond main operating account. At time of interest and principal payment, money is transferred from the 2010 bond and 2011 bond main operating account into each of the sinking funds and from those accounts the payments of principal and interest are made. Interest is earned on each of these accounts.

The account balances of these funds at June 30, 2015 and 2014 were as follows:

Fund	Balance at June 30,	
	2015	2014
2010 bond reserve fund	\$ 2,561,823	\$ 2,493,327
2011 bond reserve fund	504,099	495,405
2010 and 2011 main account	1,190,099	1,156,463
Total reserve funds	<u>\$ 4,256,021</u>	<u>\$ 4,145,195</u>

There was no activity, other than the interest deposits into the reserve funds during the year ended June 30, 2015. Interest earned on the 2010 reserve fund is periodically swept from the reserve fund into the 2010 sinking fund. Interest earned on the 2011 reserve fund is maintained in that account. Total deposits to the main operating account and subsequently into the sinking funds were \$2,764,189 and \$2,804,730 respectively, in 2015 and 2014. Total withdrawals for payments from the sinking fund were \$2,758,619 and \$2,757,656 respectively, in 2015 and 2014.

NOTE E – TERMINATION AGREEMENTS

When the Commission was formed in 1998, the City of Florence Water Department and the Boone County Water District incurred a severance penalty from their previous supplier, the Northern Kentucky Water District. The original amount of these termination costs was \$5,082,120, which is to be amortized over a period of 30 years. The balance of deferred termination costs was \$2,145,789 and \$2,315,193 at June 30, 2015 and 2014, respectively.

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2015 and 2014

The Commission's future amortization expense for termination agreements is detailed in the following schedule:

Year Ended June 30,	Termination Agreement Costs
2016	\$ 169,404
2017	169,404
2018	169,404
2019	169,404
2020	169,404
Thereafter	1,298,769
Total	<u>\$ 2,145,789</u>

NOTE F – UTILITY PLANT IN SERVICE

All property, plant and equipment including infrastructure assets are recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss included in the results of operations. Useful lives of capitalized improvements and the water system maintained by the Commission are 15 and 40 years, respectively.

Repair and maintenance charges, which do not increase the useful lives of the assets, are charged to income as incurred. Interest incurred on construction funding during the period of construction is capitalized and is added to the item under construction rather than charged to expense as incurred.

Type of Asset	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
Land	\$ 1,203,323	\$ -	\$ -	\$ 1,203,323
Equipment	7,117	-	-	7,117
Improvements	54,429	-	-	54,429
Water system	37,562,051	-	-	37,562,051
Subtotal	38,826,920	-	-	38,826,920
Less: accum. depreciation	(10,164,798)	(943,412)	-	(11,108,210)
Total assets	<u>\$ 28,662,122</u>	<u>\$ (943,412)</u>	<u>\$ -</u>	<u>\$ 27,718,710</u>

Depreciation expense was \$943,412 and \$943,412 for 2015 and 2014, respectively.

NOTE G – CONSTRUCTION WORK IN PROGRESS

At June 30, 2015 and 2014, the Commission had no construction work in progress.

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2015 and 2014

NOTE H – WATER REVENUE BONDS SERIES 2010

On December 1, 2010, the Commission issued a water system refunding revenue bond in the amount of \$29,990,000 in order to refund a portion of its Series 2001 revenue bonds. The interest rate on this debt varies between 3.25% and 3.50%. Interest is payable semi-annually on the first day of June and December of each year. The first payment of principal was due on December 1, 2011, and maturity occurs on December 1, 2027.

The future minimum cash requirements are as follows:

Year Ending June 30,	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	3.25%	\$ 1,385,000	\$ 954,331	\$ 2,339,331
2017	3.25%	1,915,000	900,706	2,815,706
2018	3.25%	1,975,000	837,494	2,812,494
2019	3.25%	2,040,000	772,250	2,812,250
2020	3.25%	2,105,000	704,894	2,809,894
2021-2025	3.25-3.50%	11,640,000	2,420,281	14,060,281
2026-2028	3.50%	8,005,000	426,563	8,431,563
Totals		<u>\$ 29,065,000</u>	<u>\$ 7,016,519</u>	<u>\$ 36,081,519</u>

NOTE I – WATER REVENUE BONDS SERIES 2011

On January 4, 2011, the Commission issued a water system refunding revenue bond in the amount of \$6,285,000. The interest rate on this debt varies between 1.5% and 2.0%. Interest is payable semi-annually on the first day of June and December of each year. The first payment of principal is due on December 1, 2011 and maturity occurs on December 1, 2015.

The future minimum cash requirements are as follows

Year Ending June 30,	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	2.00%	\$ 385,000	\$ 3,850	\$ 388,850
Totals		<u>\$ 385,000</u>	<u>\$ 3,850</u>	<u>\$ 388,850</u>

NOTE J – DEFERRED REVENUE ON YIELD SPREAD

When the 2010 and 2011 Series bonds were issued, the new issuances were at a much lower yield than the original 2001 Series bonds held by the Commission. Additional cash was received as bond source funds from the Bank of America to compensate for the difference in the bond spread. Amounts received for the 2010 and 2011 bond series were \$665,000 and \$83,500, respectively. These revenues will be recognized as earned over the lifetimes of the bonds, instead of being recognized as one lump-sum amount in the year received. As of June 30, 2015, balances remaining as deferred revenue on the 2010 and 2011 bond issuances were \$488,104 and \$5,758, respectively with total annual reductions of the deferral of \$56,586. As of June 30,

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2015 and 2014

2014, balances remaining as deferred revenue were \$527,414 and \$23,034 for the 2010 and 2011 bond issuances, respectively, with total annual reductions of the deferral of \$56,586.

NOTE K – CONCENTRATION OF RISK

The Boone-Florence Water Commission has two customers, the City of Florence Water Department and the Boone County Water District, and one vendor, the Greater Cincinnati Water Works. In 1999, both customers signed an agreement to purchase water from the Commission for a period of at least 25 years. A failure of any of the aforementioned entities would have severe effects on the Commission's ability to meet its obligations.

NOTE L – IMPLEMENTED ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board's Statement No. 68 (GASB 68) *Accounting and Financial Reporting for Pensions* provides accounting and financial reporting guidance for state and local government employee pension systems. GASB 68 required governmental entities to disclose their proportionate share of the net pension liability of any pension system in which they participate. The Commission is not a member of any pension system, does not contribute to any pension system on behalf of its one employee, and has no proportionate share of the net pension liability; therefore this standard has no effect on Commission financial statements.

NOTE M – SUBSEQUENT EVENTS

Management has evaluated events through September 17, 2015, the date on which the financial statements were available for issue. The Commission did not have any events subsequent to June 30, 2015 through September 17, 2015 to disclose.

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*

Independent Auditor's Report

**To the Board of Commissioners
Boone Florence Water Commission
Burlington, Kentucky**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Boone Florence Water Commission as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise Boone Florence Water Commission's basic financial statements and have issued our report thereon dated September 17, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Boone Florence Water Commission'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 Boone Florence Water Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Boone Florence Water Commission'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. We did not identify deficiencies in internal control that we consider to be significant deficiencies.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boone Florence Water Commission'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
September 17, 2015