

**BOONE-FLORENCE
WATER COMMISSION
FINANCIAL STATEMENTS**

For the Years Ended June 30, 2017 and 2016

**BOONE-FLORENCE
WATER COMMISSION**

FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

Table of Contents

	<u>Pages</u>
Board of Commissioners	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-8
Statements of Net Position	9-10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to the Financial Statements	13-19
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	20-21

**BOONE-FLORENCE
WATER COMMISSION
FINANCIAL STATEMENTS**

For the Years Ended June 30, 2017 and 2016

Board of Commissioners

		<u>Appointed By:</u>	<u>Term Expires:</u>
Chair	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, 2020
Member	Richard Knock	Boone County	Oct. 31, 2017
Member	Pat Wingo	Boone County	Oct. 31, 2020

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 years ended June 30, 2017 and 2016, 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 audits. We conducted our audits 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 audits 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.



Opinions

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, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2017 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 22, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2017.

Financial Highlights

- The assets of the Boone-Florence Water Commission exceeded its liabilities at the close of the most recent fiscal year by \$14,364,932 (net position). Of this amount, \$10,375,697 (unrestricted net position) may be used to meet the Commission's ongoing obligations.
- The commission's total net position increased by \$1,305,582.
- The Boone-Florence Water Commission's total debt decreased by \$1,892,109 (6.9 percent) during the current fiscal year.

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

The statement of activities presents information showing how the commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (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 position 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 \$14,364,932 at the close of the most recent fiscal year.

Net Position

	Business-type Activities		
	2017	2016	2015
Current & other assets	\$ 13,537,334	\$ 13,050,524	\$ 12,608,422
Capital assets	25,831,886	26,775,298	27,718,710
Total Assets	39,369,220	39,825,822	40,327,132
Deferred outflows of resources	1,806,980	1,976,384	2,145,788
Total Assets and Deferred Outflow of Resources	41,176,200	41,802,206	42,472,920
Long-term liabilities	23,551,547	25,503,656	27,401,170
Other liabilities	2,879,032	2,801,924	2,595,053
Total Liabilities	26,430,579	28,305,580	29,996,223
Deferred inflows of resources	380,689	437,276	493,862
Total Liabilities and Deferred Inflow of Resources	26,811,268	28,742,856	30,490,085
Net investment in capital assets	(75,350)	(1,080,635)	(1,946,322)
Restricted	4,064,585	4,030,424	8,262,534
Unrestricted	10,375,697	10,109,561	5,666,623
Total Net Position	\$ 14,364,932	\$ 13,059,350	\$ 11,982,835

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 position: 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.

In 2016, there was a decrease of \$4,232,110 in restricted net position reported in connection with the Boone-Florence Water Commission's business-type activities. These amounts represent the various funds restricted, by external sources, for the repayment of debt and ongoing construction needs. After a thorough review of the restriction requirements, the Commission reclassified \$2,400,000 in previously restricted cash reserves from low interest rate certificates of deposit to an unrestricted investment portfolio with a higher rate of return. This portfolio consists of US Treasuries, US Agency debt, Mutual Funds, and Money Market Funds. The Commission also reclassified \$1,281,191 in previously restricted funds to internally reserved depreciation cash, cash equivalents, and certificates of deposit. The Commission also reclassified \$715,530 in previously restricted funds to unreserved cash and cash equivalents.

The commission's net position increased by \$1,305,582 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		
	2017	2016	2015
Revenues:			
Program Revenues:			
Water revenue	\$ 12,413,362	\$ 11,541,915	\$ 11,169,066
General Revenues:			
Miscellaneous income	4,895	-	-
Interest income	193,168	141,831	137,363
Investment income	(62,735)	28,944	-
Earned revenues on yield spread	56,586	56,586	56,586
Total Revenues	<u>12,605,276</u>	<u>11,769,276</u>	<u>11,363,015</u>
Expenses:			
Operating expenses	10,211,879	9,552,083	9,176,826
Interest expense	918,411	971,274	1,010,355
Contract termination fees	169,404	169,404	169,403
Total Expenses	<u>11,299,694</u>	<u>10,692,761</u>	<u>10,356,584</u>
Increase in Net Position	1,305,582	1,076,515	1,006,431
Beginning Net Position	13,059,350	11,982,835	10,976,404
Ending Net Position	<u>\$ 14,364,932</u>	<u>\$ 13,059,350</u>	<u>\$ 11,982,835</u>

Business-type Activities

Business-type activities increased the Boone-Florence Water Commission's net position by \$1,305,582, 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 7.6 percent as a result of increased water usage rates.
- Expenses to provide water service increased by 6.9 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 position of the proprietary fund at the end of the year amounted to \$9,764,550. 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, 2017, 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		
	2017	2016	2015
Land	\$ 1,203,323	\$ 1,203,323	\$ 1,203,323
Water system	37,562,051	37,562,051	37,562,051
Improvements	54,429	54,429	54,429
Equipment	7,117	7,117	7,117
Construction in progress	-	-	-
Totals	<u>\$ 38,826,920</u>	<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 G and Note H 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 \$25,765,000. The Commission's debt represents bonds secured solely by the water sales of the Commission.

	Business-type Activities		
	2017	2016	2015
2010 Revenue Bond Payable	\$ 25,765,000	\$ 27,680,000	\$ 29,065,000
2011 Revenue Bond Payable	-	-	385,000
Totals	<u>\$ 25,765,000</u>	<u>\$ 27,680,000</u>	<u>\$ 29,450,000</u>

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

Debt Service Coverage

The Maximum Annual Debt Service (MADS) coverage for fiscal year 2016-17 was 118.74%, net of non-cash revenue sources.

Future Projects

Preliminary engineering for a new storage facility, including transmission main improvements, is planned for the next fiscal year (17-18).

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, 2017 and 2016
--

Assets	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 3,783,749	\$ 4,028,894
Investments	3,563,740	1,849,521
Reserve for depreciation, investment cash and equivalents and CDs	251,991	1,866,825
Construction fund	611,147	40,019
Accounts receivable - customers	1,173,959	1,148,962
Accounts receivable on construction projects	-	10,023
Interest receivable	7,951	31,389
Prepaid insurance	7,746	6,834
Total Current Assets	<u>9,400,283</u>	<u>8,982,467</u>
Restricted Assets		
Sinking fund	1,276,876	1,207,882
Bond reserve fund	2,860,175	2,860,175
Total Restricted Assets	<u>4,137,051</u>	<u>4,068,057</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
Less: accumulated depreciation	<u>(12,995,034)</u>	<u>(12,051,622)</u>
Total Capital Assets, net of depreciation	<u>25,831,886</u>	<u>26,775,298</u>
Total Assets	39,369,220	39,825,822
Deferred Outflows of Resources		
Unamortized termination agreement costs, net of amortization	<u>1,806,980</u>	<u>1,976,384</u>
Total Assets and Deferred Outflows of Resources	<u>41,176,200</u>	<u>41,802,206</u>

Continued on page 10

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

BOONE-FLORENCE WATER COMMISSION STATEMENTS OF NET POSITION - Continued June 30, 2017 and 2016
--

Liabilities	2017	2016
Current Liabilities Payable from Current Assets		
Accounts payable - general	\$ 828,959	\$ 806,665
Current portion of bond payable	1,975,000	1,915,000
Withheld and accrued liabilities	2,607	2,607
Total Current Liabilities Payable from Current Assets	<u>2,806,566</u>	<u>2,724,272</u>
Current Liabilities Payable from Restricted Assets		
Accrued interest payable	72,466	77,652
Total Current Liabilities Payable from Restricted Assets	<u>72,466</u>	<u>77,652</u>
Long-Term Liabilities Payable from Restricted Assets		
Bonds payable	23,790,000	25,765,000
Less: unamortized bond discount	(238,453)	(261,344)
Total Long-Term Liabilities Payable from Restricted Assets	<u>23,551,547</u>	<u>25,503,656</u>
Total Liabilities	26,430,579	28,305,580
Deferred Inflows of Resources		
Deferred revenue on yield spread	380,689	437,276
Total Liabilities and Deferred Inflows of Resources	<u>26,811,268</u>	<u>28,742,856</u>
Net Position		
Net investment in capital assets	(75,350)	(1,080,634)
Restricted	4,064,585	3,990,405
Unrestricted	<u>10,375,697</u>	<u>10,149,579</u>
Total Net Position	<u>\$ 14,364,932</u>	<u>\$ 13,059,350</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Water sales	\$ 12,413,362	\$ 11,541,915
Miscellaneous income	4,895	-
Total Operating Revenues	<u>12,418,257</u>	<u>11,541,915</u>
Operating Expenses		
Accounting	10,665	10,995
Bank service charges	15	30
Contractual services	76,889	68,617
Depreciation expense	943,412	943,412
Insurance expense	19,738	18,371
Lawn care	8,200	6,240
Legal fees	9,375	10,903
Materials and supplies	1,703	2,024
Organizations and seminars	1,128	568
Postage and delivery	116	240
Purchased power	112,065	104,008
Purchased water	8,739,152	8,100,172
Salaries and wages - Commission	2,500	2,500
Salaries and wages - General Manager	69,870	69,870
Storage facility maintenance	199,744	195,633
Storm water runoff	817	891
Taxes other than income taxes	6,016	6,229
Telephone	10,474	11,380
Total Operating Expenses	<u>10,211,879</u>	<u>9,552,083</u>
Operating Income	2,206,378	1,989,832
Non-Operating Income (Expense)		
Earned revenue on yield spread	56,586	56,586
Interest income	193,168	141,831
Investment income	(62,735)	28,944
Interest expense	(918,411)	(971,274)
Amortization of contract termination cost	(169,404)	(169,404)
Net Income	1,305,582	1,076,515
Net Position, Beginning of Year	<u>13,059,350</u>	<u>11,982,835</u>
Net Position, End of Year	<u>\$ 14,364,932</u>	<u>\$ 13,059,350</u>

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, 2017 and 2016
--

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 12,393,260	\$ 11,448,346
Cash paid to suppliers for services and water	(9,158,676)	(8,465,890)
Cash paid to or on behalf of employees for services	(78,386)	(78,599)
Net Cash Provided by Operating Activities	<u>3,156,198</u>	<u>2,903,857</u>
Cash Flows form Investing Activities		
Purchases and sales of investments	(1,776,956)	(1,820,576)
Interest on investments	216,606	141,150
Net Cash Used for Investing Activities	<u>(1,560,350)</u>	<u>(1,679,426)</u>
Cash Flows from Capital and Related Financing Activities		
(Increase) decrease in restricted funds	(68,994)	4,276,522
Transfers of reserve for depreciation, cash and CDs	1,043,706	(1,906,844)
Principal payments on long-term debt	(1,915,000)	(1,770,000)
Interest on long-term debt	(900,705)	(958,182)
Net Cash Used for Capital and Related Financing Activities	<u>(1,840,993)</u>	<u>(358,504)</u>
(Decrease) Increase in Cash and Cash Equivalents	(245,145)	865,927
Cash and Cash Equivalents-Beginning of Year	<u>4,028,894</u>	<u>3,162,967</u>
Cash and Cash Equivalents-End of Year	<u>\$ 3,783,749</u>	<u>\$ 4,028,894</u>
Reconciliation of Operating Income to Net Cash Provided		
By Operating Activities		
Operating income	\$ 2,206,378	\$ 1,989,832
Depreciation	943,412	943,412
Changes in operating assets and liabilities		
Increase in accounts receivable	(24,997)	(93,569)
Decrease (increase) in accounts receivable on construction projects	10,023	(1,531)
Increase in prepaid insurance	(912)	(551)
Increase in accounts payable	22,294	66,264
Net Cash Provided by Operating Activities	<u>\$ 3,156,198</u>	<u>\$ 2,903,857</u>
Supplemental Information		
Interest paid	<u>\$ (900,705)</u>	<u>\$ (958,182)</u>

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

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2017 and 2016

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, 2017. 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.

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 position 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.

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2017 and 2016

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.

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission currently has only one item that qualifies for reporting in this category and it is deferred revenue created from a yield spread from the reacquisition of indebtedness. Accordingly, the item unavailable revenues, is reported only in the balance sheet. The Commission reports unavailable revenues from various sources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts have become available.

NOTE B – DEPOSITS/UNRESTRICTED ASSETS

Deposits consist of an operation and maintenance (O&M) checking account, a construction fund account, and two bond reserve management accounts. The cash accounts are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the statements

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2017 and 2016

of net position as “Cash and Cash Equivalents” and “Restricted Assets”. The bank balances were \$3,783,749 and \$4,028,894 in the O&M account at June 30, 2017 and 2016, respectively. The Commission has historically maintained updated collateral agreements with the bank; the depository amounts at June 30, 2017 and 2016 were fully collateralized.

NOTE C – INVESTMENTS

In 2016, the Commission redeemed formerly restricted certificates of deposit and reclassified and invested those funds into an unrestricted investment portfolio with a higher rate of return. This portfolio consists of US Treasuries, US Agency debt, Mutual Funds, and Money Market Funds. Investment obligations are deemed to be part of the fund or account for which they were purchased. Income, interest, gains and losses on an investment obligation are credited or charged to the fund or account for which such an investment obligation was purchased.

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments’ fair value measurements and associated levels are as follows at June 30, 2017:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. treasuries	\$ 1,103,040	\$ 1,103,040	\$ -	\$ -
U.S. agencies (FNMA, etc.)	1,484,750	1,484,750	-	-
Total debt securities	2,587,790	2,587,790	-	-
Equity securities:				
Mutual funds	975,950	975,950	-	-
Total equity securities	975,950	975,950	-	-
Subtotal investments	3,563,740	3,563,740	-	-
Cash and Cash Equivalents				
Money market funds	251,991	251,991	-	-
Total investments	\$ 3,815,731	\$ 3,815,731	\$ -	\$ -

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2017 and 2016

Investments' fair value measurements and associated levels are as follows at June 30, 2016:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. treasuries	\$ 414,234	\$ 414,234	\$ -	\$ -
U.S. agencies (FNMA, etc.)	1,104,073	1,104,073	-	-
Total debt securities	1,518,307	1,518,307	-	-
Equity securities:				
Mutual funds	331,214	331,214	-	-
Total equity securities	331,214	331,214	-	-
Subtotal investments	1,849,521	1,849,521	-	-
Cash and Cash Equivalents				
Money market funds	585,634	585,634	-	-
Total investments	\$ 2,435,155	\$ 2,435,155	\$ -	\$ -

Debt and equity securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Debt securities categorized as Level 2 are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices.

NOTE D – CONSTRUCTION FUNDS

The Commission maintains a separate checking account for construction funds. These funds are designated for construction purposes. The account balance of this fund at June 30, 2017 and 2016 was as follows:

Account	Balance at June 30,	
	2017	2016
Additions and extensions account	\$ 611,147	\$ 40,019
Total construction funds	\$ 611,147	\$ 40,019

NOTE E – RESTRICTED FUNDS – BOONE-FLORENCE WATER COMMISSION WATER REVENUE BOND AND INTEREST RESERVE

For the years ended June 30, 2017 and 2016, the Commission was required to maintain a sufficient portion of revenues to allow for principal and interest on its Series 2010 bond. In order to comply with the requirement of this bond, the Commission maintained funds in two separate accounts consisting of one reserve fund and one payment (sinking) fund as of June 30, 2017. Monthly, funds are deposited into the main operating account. At time of interest and principal payment, money is transferred from the main operating account into the sinking fund and from that account the payments of principal and interest are made. Interest is earned on each of these accounts.

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2017 and 2016

The account balances of these restricted funds at June 30, 2017 and 2016 were as follows:

Fund	Balance at June 30,	
	2017	2016
2010 Bond reserve fund	\$ 2,860,175	\$ 2,860,175
2010 Sinking fund	1,276,876	1,207,882
Total restricted funds	<u>\$ 4,137,051</u>	<u>\$ 4,068,057</u>

There was no activity, other than the interest deposits into the reserve fund during the year ended June 30, 2017. Interest earned on the 2010 reserve fund is periodically swept from the reserve fund into the 2010 sinking fund. Total deposits to the main operating account and subsequently into the sinking fund were \$2,774,758 and \$1,817,542 respectively, in 2017 and 2016. Total withdrawals for payments from the sinking fund were \$2,815,706 and \$3,014,915 respectively, in 2017 and 2016.

NOTE F – 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 \$1,806,980 and \$1,976,384 at June 30, 2017 and 2016, respectively.

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

Year Ended June 30,	Termination Agreement Costs
2018	\$ 169,404
2019	169,404
2020	169,404
2021	169,404
2022	169,404
Thereafter	959,960
Total	<u>\$ 1,806,980</u>

NOTE G – 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.

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2017 and 2016

The fixed asset balances at June 30, 2017 and 2016 are as follows:

Type of Asset	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
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	(12,051,622)	(943,412)	-	(12,995,034)
Total assets	<u>\$ 26,775,298</u>	<u>\$ (943,412)</u>	<u>\$ -</u>	<u>\$ 25,831,886</u>

Depreciation expense was \$943,412 for both 2016 and 2017.

NOTE H – CONSTRUCTION WORK IN PROGRESS

At June 30, 2017 and 2016, the Commission had no construction work in progress.

NOTE I – 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
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	3.25%	2,180,000	635,263	2,815,263
2022	3.25%	2,250,000	563,275	2,813,275
2023-2027	3.25-3.50%	12,455,000	1,600,006	14,055,006
2028	3.50%	2,760,000	48,300	2,808,300
Totals		<u>\$ 25,765,000</u>	<u>\$ 5,161,482</u>	<u>\$ 30,926,482</u>

NOTE J – DEFERRED REVENUE ON YIELD SPREAD

When the 2010 Series bond was issued, the new issuance was at a much lower yield than the original 2001 Series bond held by the Commission. Additional cash was received as bond source funds from Bank of America to compensate for the difference in the bond spread. The amount received for the 2010 bond series was \$665,000. This revenue will be recognized as earned over the lifetime of the

BOONE-FLORENCE WATER COMMISSION NOTES TO THE FINANCIAL STATEMENTS June 30, 2017 and 2016

bond, instead of being recognized as one lump-sum amount in the year received. As of June 30, 2017, the balance remaining as deferred revenue on the 2010 bond issuance was \$380,689, with total annual reductions of the deferral of \$56,586. As of June 30, 2016, the balance remaining as deferred revenue was \$437,276 for the 2010 bond issuance, 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 – REPORTING FOR PENSIONS

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 subsequent events through September 22, 2017, which represents the date the financial statements were available to be issued. The Commission did not have any events subsequent to June 30, 2017 through September 22, 2017 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 years ended June 30, 2017 and 2016, 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 22, 2017.

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 22, 2017