

BOONE-FLORENCE WATER COMMISSION

FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and June 30, 2017

BOONE-FLORENCE WATER COMMISSION

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BOONE-FLORENCE WATER COMMISSION
For Years Ended June 30, 2018 and 2017

BOARD OF COMMISSIONERS

		<u>Appointed By:</u>	<u>Term Expires:</u>
Chairman	Robin Curry	Boone County	Oct. 31, 2018
Treasurer	Jeffery P. Koenig	City of Florence	Oct. 31, 2021
Secretary	Jim Daugherty	Boone Co. Water	Oct. 31, 2020
Member	Richard Knock	Boone County	Oct. 31, 2021
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 Trustees of
Boone-Florence Water Commission
Boone County, 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, 2018, 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Boone-Florence Water Commission, as of June 30, 2018, and the respective changes in financial position, and, where applicable, 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 through 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 October 12, 2018, on our consideration of the 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.

Ummeken, Huey & Mader PLLC

Fort Wright, Kentucky
October 12, 2018

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, 2018.

Financial Highlights

- The assets of the Boone-Florence Water Commission exceeded its liabilities at the close of the most recent fiscal year by \$15,691,214 (net position). Of this amount, \$10,605,557 (unrestricted net position) may be used to meet the Commission's ongoing obligations.
- The commission's total net position increased by \$1,326,282.
- The Boone-Florence Water Commission's total debt decreased by \$1,975,000 (8 percent) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are 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 of 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 the Boone-Florence Water Commission's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Boone-Florence Water Commission is improving or deteriorating.

The statement of revenues, expenses and changes in net position 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.

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 \$15,691,214 at the close of the most recent fiscal year.

Net Position

	Business-type Activities	
	2018	2017
Current & other assets	\$ 15,637,463	\$ 15,344,314
Capital assets	24,888,474	25,831,886
Total Assets	<u>40,525,937</u>	<u>41,176,200</u>
Long-term liabilities	21,534,439	23,551,547
Other Liabilities	3,300,284	3,259,721
Total Liabilities	<u>24,834,723</u>	<u>26,811,268</u>
Net Position:		
Net investment in Capital Asset:	989,932	(75,350)
Restricted	4,095,725	4,064,585
Unrestricted	10,605,557	10,375,697
Total Net Position	<u>\$ 15,691,214</u>	<u>\$ 14,364,932</u>

At the end of the current fiscal year, the Boone-Florence Water Commission can report positive balances in all three categories of net position.

There was an increase of \$31,140 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 total net position increased by \$1,326,282 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	
	<u>2018</u>	<u>2017</u>
Revenues:		
Program Revenues:		
Water Revenue	\$ 12,790,414	\$ 12,413,362
General Revenues:		
Interest Income	231,016	193,168
Earned Revenues on Yield Spread	56,586	56,586
Miscellaneous Income	-	4,895
Total Revenues	<u>13,078,016</u>	<u>12,668,011</u>
Expenses:		
Operating Expenses	10,636,600	10,211,879
Interest Expense	855,036	918,411
Investment Loss	90,694	62,735
Contract Termination Fees	169,404	169,404
Total Expenses	<u>11,751,734</u>	<u>11,362,429</u>
Change in Net Position	1,326,282	1,305,582
Net Position - Beginning of Year	14,364,932	13,059,350
Net Position - End of Year	<u>\$ 15,691,214</u>	<u>\$ 14,364,932</u>

Business-type Activities

Business-type activities increased the Boone-Florence Water Commission's net position by \$1,326,282, accounting for 100 percent of the total growth in the commission's net position. Key elements of this increase are as follows.

- Water Revenue increased by 3 percent in the current fiscal year due to a small rate increase in February 2018.
- Total Revenues increased by 4 percent in the current fiscal year while Total Expenses also increased by 4 percent which is why the Change in Net Position is relatively close from 2017 to 2018.

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, 2018, amounts to \$38,826,920. This investment in capital assets includes land, water system, improvements and equipment. There was no change in the Boone-Florence Water Commission's investment in capital assets for the current fiscal year.

	Business-type Activities	
	<u>2018</u>	<u>2017</u>
Land	\$ 1,203,323	\$ 1,203,323
Water system & Improvements	37,616,480	37,616,480
Equipment	<u>7,117</u>	<u>7,117</u>
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 G.

Long-term Debt

At the end of the current fiscal year, the Boone-Florence Water Commission had total debt outstanding of \$23,790,000. The Commission's debt represents bonds secured solely by the water sales of the Commission.

	Business-type Activities	
	2018	2017
2010 Revenue Bond Payable	<u>23,790,000</u>	<u>25,765,000</u>
Totals	<u>\$ 23,790,000</u>	<u>\$ 25,765,000</u>

Additional information on the Boone-Florence Water Commission long-term debt can be found in notes I and J.

Subsequent Year's Budget

The budget for the Fiscal Year ended June 30, 2019 included the following major capital projects:

- The board approved expenditures totaling \$273,000 for the Ellis Road Valves

The Revenue & Operating budget for the Fiscal Year ended June 30, 2019 included \$188,221 for engineering studies to install a new 24 inch pipeline, build a new water storage facility, and conduct a feasibility study to build a water treatment plant.

Debt Service Coverage

The Maximum Annual Debt Service (MADS) coverage for the fiscal year 2017-18 without non-cash revenue was 118.60%. With non-cash revenue sources, the coverage was 117.39 %.

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,797,749	\$ 3,783,749
Investments	3,399,254	3,563,740
Reserve for depreciation, investment cash and equivalents	373,097	251,991
Construction fund	1,018,514	611,147
Accounts receivable - customers	1,220,422	1,173,959
Accounts receivable on construction projects	12,519	-
Interest receivable	6,850	7,951
Prepaid insurance	8,641	7,746
Total Current Assets	<u>9,837,046</u>	<u>9,400,283</u>
Restricted Assets		
Sinking funds	1,302,667	1,276,876
Bond reserve fund	2,860,175	2,860,175
Total Restricted Assets	<u>4,162,842</u>	<u>4,137,051</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>(13,938,446)</u>	<u>(12,995,034)</u>
Total Capital Assets, net of depreciation	<u>24,888,474</u>	<u>25,831,886</u>
TOTAL ASSETS	<u>38,888,362</u>	<u>39,369,220</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized termination agreement costs, net of amortization	<u>1,637,575</u>	<u>1,806,980</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>40,525,937</u>	<u>41,176,200</u>

See accompanying notes to financial statements.

BOONE-FLORENCE WATER COMMISSION
STATEMENTS OF NET POSITION - Continued
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES		
Current Liabilities Payable from Current Assets		
Accounts payable - general	866,328	828,959
Current portion of bonds payable	2,040,000	1,975,000
Withheld and accrued liabilities	2,736	2,607
Total Current Liabilities Payable from Current Assets	<u>2,909,064</u>	<u>2,806,566</u>
Current Liabilities Payable from Restricted Assets		
Accrued interest payable	67,117	72,466
Total Current Liabilities Payable from Restricted Assets	<u>67,117</u>	<u>72,466</u>
Long-Term Liabilities Payable from Restricted Assets		
Bonds payable	21,750,000	23,790,000
Less: unamortized bond discount	<u>(215,561)</u>	<u>(238,453)</u>
Total Long-Term Liabilities Payable from Restricted Assets	<u>21,534,439</u>	<u>23,551,547</u>
TOTAL LIABILITES	<u>24,510,620</u>	<u>26,430,579</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred revenue on yield spread	<u>324,103</u>	<u>380,689</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF REOURCES	<u>24,834,723</u>	<u>26,811,268</u>
NET POSITION		
Net investment in capital assets	989,932	(75,350)
Restricted	4,095,725	4,064,585
Unrestricted	<u>10,605,557</u>	<u>10,375,697</u>
TOTAL NET POSITION	<u>\$ 15,691,214</u>	<u>\$ 14,364,932</u>

See accompanying notes to financial statements.

BOONE-FLORENCE WATER COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Water sales	\$ 12,790,414	\$ 12,413,362
Miscellaneous income	-	4,895
TOTAL REVENUES	<u>12,790,414</u>	<u>12,418,257</u>
OPERATING EXPENSES		
Accounting	11,130	10,665
Bank service charges	-	15
Contractual services	136,788	76,889
Depreciation expense	943,412	943,412
Insurance expense	19,762	19,738
Lawn care	6,200	8,200
Legal fees	10,073	9,375
Materials and supplies	2,080	1,703
Organizations and seminars	1,628	1,128
Postage and delivery	144	116
Purchased power	119,202	112,065
Purchased water	9,080,121	8,739,152
Salaries and wages - Commission	2,500	2,500
Salaries and wages - General Manager	73,365	69,870
Storage facility maintenance	211,525	199,744
Storm water runoff	891	817
Taxes other than income taxes	6,400	6,016
Telephone	11,379	10,474
TOTAL OPERATING EXPENSES	<u>10,636,600</u>	<u>10,211,879</u>
OPERATING INCOME	2,153,814	2,206,378
NON-OPERATING REVENUES (EXPENSES)		
Earned revenue on yield spread	56,586	56,586
Interest income	231,016	193,168
Investment income	(90,694)	(62,735)
Interest expense	(855,036)	(918,411)
Amortization of contract termination costs	(169,404)	(169,404)
CHANGE IN NET POSITION	1,326,282	1,305,582
NET POSITION, BEGINNING OF YEAR	<u>14,364,932</u>	<u>13,059,350</u>
NET POSITION, END OF YEAR	<u>\$ 15,691,214</u>	<u>\$ 14,364,932</u>

See accompanying notes to financial statements.

BOONE-FLORENCE WATER COMMISSION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 12,731,432	\$ 12,393,260
Cash paid to suppliers for services and water	(9,574,449)	(9,158,676)
Cash paid to or on behalf of employees for services	(82,136)	(78,386)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,074,847</u>	<u>3,156,198</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and sales of investments	73,792	(1,776,956)
Interest on investments	232,117	216,606
NET CASH USED FOR INVESTING	<u>305,909</u>	<u>(1,560,350)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Increase) decrease in restricted funds	(25,791)	(68,994)
Transfers of reserve for depreciation, cash and equivalents	(528,473)	1,043,706
Principal payments on long-term debt	(1,975,000)	(1,915,000)
Interest on long-term debt	(837,492)	(900,705)
NET CASH USED IN FINANCING ACTIVITIES	<u>(3,366,756)</u>	<u>(1,840,993)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,000	(245,145)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,783,749</u>	<u>4,028,894</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,797,749</u>	<u>\$ 3,783,749</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 2,153,814	\$ 2,206,378
Depreciation	943,412	943,412
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(46,463)	(24,997)
Decrease (increase) in accounts receivable on construction projects	(12,519)	10,023
Decrease (increase) in prepaid insurance	(895)	(912)
Increase (decrease) in accounts payable	37,369	22,294
Increase (decrease) in accrued liabilities	129	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,074,847</u>	<u>\$ 3,156,198</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ (837,492)</u>	<u>\$ (900,705)</u>

See accompanying notes to financial statements.

BOONE-FLORENCE WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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.

Basis of Accounting

The Commission's financial statements are presented on the full accrual basis of accounting 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, 2018. 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 (NOTE L).

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 governing body is that the cost (expense, including depreciation) of providing goods and 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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operations are included on the statements of net position. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) is segregated into "net investment in capital assets"; "restricted"; and "unrestricted" components.

BOONE-FLORENCE WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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 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 District 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 of 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 of a period of at least 29 years.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain 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 could 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 that arise from the overall function of the entity. Examples of non-operating revenues are grant revenues, income on the sale of fixed assets and interest income.

BOONE-FLORENCE WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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, 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 of net position as “Cash and Cash Equivalents” and “Restricted Assets”. The bank balances were \$3,797,749 and \$3,783,749 in the O&M account at June 30, 2018 and 2017, respectively. The Commission has historically maintained updated collateral agreements with the bank; the depository amounts at June 30, 2018 and 2017 were fully collateralized.

BOONE-FLORENCE WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 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, 2018.

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities				
U.S. treasuries	\$ 1,092,286	\$ 1,092,286	\$ -	\$ -
U.S. agencies (FNMA, etc.)	1,326,997	1,326,997	-	-
Total debt securities	<u>2,419,283</u>	<u>2,419,283</u>	<u>-</u>	<u>-</u>
Equity securities				
Mutal funds	979,971	979,971	-	-
Total equity securities	<u>979,971</u>	<u>979,971</u>	<u>-</u>	<u>-</u>
Subtotal investments	3,399,254	3,399,254	-	-
Cash and Cash Equivalents				
Money market funds	373,097	373,097	-	-
Total investments	<u>\$ 3,772,351</u>	<u>\$ 3,772,351</u>	<u>\$ -</u>	<u>\$ -</u>

BOONE-FLORENCE WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE C – INVESTMENTS (continued)

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	<u>2,587,790</u>	<u>2,587,790</u>	<u>-</u>	<u>-</u>
Equity securities				
Mutal funds	975,950	975,950	-	-
Total equity securities	<u>975,950</u>	<u>975,950</u>	<u>-</u>	<u>-</u>
Subtotal investments	3,563,740	3,563,740	-	-
Cash and Cash Equivalents				
Money market funds	251,991	251,991	-	-
Total investments	<u>\$ 3,815,731</u>	<u>\$ 3,815,731</u>	<u>\$ -</u>	<u>\$ -</u>

Debt and equity securities categorized as Level 1 are valued based on prices quoted in active markets for those securities.

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, 2018 and 2017 were as follows:

	Balance at June 30,	
	2018	2017
Additions and extensions account	<u>1,018,514</u>	<u>611,147</u>
Total construction funds	<u>\$ 1,018,514</u>	<u>\$ 611,147</u>

BOONE-FLORENCE WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

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

For the years ended June 30, 2018 and 2017, the Commission was required to maintain a sufficient portion of revenues to allow for payment of 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 June 30, 2018. 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.

The account balances of these funds at June 30, 2018 and 2017 were as follows:

	Balance at June 30,	
	<u>2018</u>	<u>2017</u>
2010 Bond reserve fund	\$ 2,860,175	\$ 2,860,175
2010 Sinking fund	<u>1,302,667</u>	<u>1,276,876</u>
Total reserve funds	<u>\$ 4,162,842</u>	<u>\$ 4,137,051</u>

There was no activity, other than interest deposits into the reserve funds during the year ended June 30, 2018. 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 funds were \$2,728,954 and \$2,774,758 respectively, in 2018 and 2017. Total withdrawals for payments from the sinking funds were \$2,812,494 and \$2,815,706 respectively, in 2018 and 2017.

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 \$1,637,575 and \$1,806,980 at June 30, 2018 and 2017, respectively. The Commission’s future amortization expense for termination agreements is detailed in the following schedule:

BOONE-FLORENCE WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE F – TERMINATION AGREEMENTS (continued)

<u>Year ending June 30,</u>	<u>Termination Agreement Costs</u>
2019	\$ 169,404
2020	169,404
2021	169,404
2022	169,404
2023	169,404
Thereafter	790,555
Total	<u>\$ 1,637,575</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, 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.

	<u>Balance at June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2018</u>
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	<u>38,826,920</u>	<u>-</u>	<u>-</u>	<u>38,826,920</u>
Less accumulated depreciation:	<u>(12,995,034)</u>	<u>(943,412)</u>		<u>(13,938,446)</u>
Total capital assets	<u>\$ 25,831,886</u>	<u>\$ (943,412)</u>	<u>\$ -</u>	<u>\$ 24,888,474</u>

BOONE-FLORENCE WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE H – CONSTRUCTION WORK IN PROGRESS

At June 30, 2018 and 2017, 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
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	3.25%	2,325,000	418,925	2,743,925
2024-2028	3.50%	12,890,000	1,229,381	14,119,381
Totals		<u>\$ 23,790,000</u>	<u>\$ 4,323,988</u>	<u>\$ 28,113,988</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 the 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 bond, instead of being recognized as one lump-sum amount in the year received. As of June 30, 2018, the balance remaining as deferred revenue on the 2010 bond issuance was \$324,103, with total annual reductions of the deferral of \$56,586.

BOONE-FLORENCE WATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 October 12, 2018, which represents the date the financial statements were available to be issued. The Commission did not have any events subsequent to June 30, 2018 through October 12, 2018 to disclose.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

**To the Board of Trustees of
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 the Boone-Florence Water Commission (Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which comprise the Boone-Florence Water Commission's basic financial statements and have issued our report thereon dated October 12, 2018.

Internal Control Over Financial Reporting

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

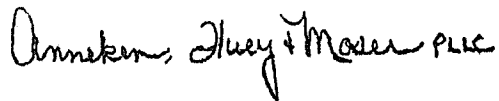
Our consideration of internal control was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies 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 the 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 audit 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.

A handwritten signature in black ink that reads "Anneken, Huey & Moser PLLC". The signature is written in a cursive, flowing style.

Anneken, Huey & Moser, PLLC
Ft. Wright, KY 41011
October 12, 2018