

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky**
Independent Auditor's Reports and Financial Statements
June 30, 2015



**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
June 30, 2015**

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Independent Auditor's Report

Board of Directors
Bowling Green Municipal Utilities
Bowling Green, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the General Services Division (Division), a Division of Bowling Green Municipal Utilities (BGMU), a component unit of the City of Bowling Green, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Division'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 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 Division'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 Division'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 Division as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Division are intended to present the financial position, the changes in financial position and, cash flows of only that portion of the business-type activities that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of BGMU as of June 30, 2015, the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in 2015 the Division adopted the *Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of the Governmental Accounting Standards Board Statement No. 27*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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; however we noted the 2014 balances presented in the management's discussion and analysis does not reflect the adjustments for the Governmental Accounting Standards Board Statement No. 68.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, on our consideration of the Division's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

BKD, LLP

Bowling Green, Kentucky
September 30, 2015

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management's Discussion and Analysis
Year Ended June 30, 2015**

Our discussion and analysis of the General Services Division (Division) of Bowling Green Municipal Utilities' (BGMU) financial performance provides an overview of the Division's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the Independent Auditor's Report and the Division's financial statements, which are included.

Financial Highlights

- The Division's net utility plant increased by \$38,102 or 0.83%.
- The Division's total assets and deferred outflows of resources decreased \$43,436 or 0.82%.
- The Division's net position decreased by \$548,274.
- The Division's total revenue increased by \$237,977 or 8.38%.
- The Division's net cash provided by operations decreased by \$150,418.

Overview of Annual Financial Report

The financial statements report information about the Division using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The **Balance Sheet** presents information on all of the Division's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position (capital structure). Over time, increases and decreases in net position are one indicator of whether the financial position of the Division is improving or deteriorating.

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the **Statement of Revenues, Expenses and Changes in Net Position** presents the results of the business activities over the course of the fiscal year and information as to how the assets changed during the year. This statement measures the success of the Division's operations over the past year and can be used to determine whether the Division has successfully recovered all its costs through its user fees (rates) and other charges. This statement also measures the Division's profitability and credit worthiness.

The **Statement of Cash Flows** provides information about changes in the Division's cash during the reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as "where did cash come from, what was cash used for and what was the change in cash balance during the reporting period?"

The **Notes to the Financial Statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Division's accounting practices, significant balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management's Discussion and Analysis
Year Ended June 30, 2015**

Summary of Organization and Business

BGMU is a municipal corporation governed by a five member board of directors (Board). The Board members for the fiscal year ended June 30, 2015, are Howard Bailey (chairperson), Steve Snodgrass (secretary), Donna Harmon, Sarah Glenn Grise and Rick Williams. The members of the Board are appointed by the mayor subject to the approval of the City Commission. City Commissioner Rick Williams is the City's representative to the Board.

BGMU's management staff for the fiscal year are Mark Iverson (general manager), Gary Bridges (chief financial officer), Jeff White (Electric Division manager), Michael Gardner (Water/Sewer Division manager), Teresa Newman (General Services Division manager), Christy Twyman (customer relations and communications manager) and Jill Hartley (human resources manager). BGMU's controller is Holly Vaughn.

BGMU operates three divisions: Electric, Water/Sewer and General Services (herein after, collectively referred to as the Utilities) providing electricity, water, wastewater service and fiber optic services to the residents and businesses of Bowling Green (City). While no operating division is responsible for the debt of others, the divisions do share certain costs, such as computer hardware, which are allocated by cost allocation analysis and other calculations as appropriate. Related-party transactions are disclosed in the notes to the financial statements.

In July 2001, the City Commission granted BGMU permission to form the Division to provide ancillary services to the citizens of Bowling Green. Fiber Planners from Greenville, South Carolina was contracted to design a fiber optic network in the city of Bowling Green. Fiber optic cable and hardware for 24 miles of fiber was purchased and installed, creating two fiber loops within the city of Bowling Green. Since that time, over 210 miles of additional fiber taps have been added to the system.

AT&T and Century Link provide internet connectivity via Gigabit Ethernet connections.

Retail rates for broadband services and dark fiber were established in June 2002. Those rates have changed accordingly with market fluctuations as management deemed necessary. With node and network construction complete, as well as the primary and secondary internet routes complete, the Divisions fiber network went live in October 2002 with both dark fiber customers and lighted fiber customers. In December 2004, BGMU added co-location services. Customers co-locating with the Division pay monthly rental fees and monthly recurring fees for dark fiber access, VLAN access or Internet access. In September 2011, the Division entered a joint venture agreement with a third party to establish the Lost River Data Center (LRDC), a co-location center offering businesses a secure site to house servers and critical data. There has been some shift of customers from BGMU facilities to the LRDC. In April 2007, the Division started offering a small business internet solution and began offering telephone services to small- and medium-sized commercial and institutional customers in 2009.

**General Services Division
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Management's Discussion and Analysis
Year Ended June 30, 2015**

At June 30, 2015, the Division has 445 customers. Services provided to those customers include 99 dark fiber connections, 931 lighted fiber connections (including BGMU's other two Divisions), 38 co-location services, 500 small business offering customers and approximately 3,500 phone lines.

The Division has no taxing power. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by capital (cash and systems) contributions from customers, including grants, loans and customer revenues.

The Division is the focal point for this management discussion and analysis.

Financial Analysis of the Division as a Whole

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning. Comments regarding year-to-year variances are included after the financial statement presentation.

**Condensed Balance Sheets
(Dollars in Thousands)**

| | June 30 | | Increase (Decrease) | |
|--|----------|----------|---------------------|------|
| | 2015 | 2014 | \$ | % |
| Current and other assets | \$ 453 | \$ 667 | \$ (214) | 32% |
| Utility plant | 4,655 | 4,617 | 38 | 1% |
| Total assets | 5,108 | 5,284 | (176) | 3% |
| Deferred outflows of resources | 132 | - | 132 | 100% |
| Total assets and deferred outflows of resources | \$ 5,240 | \$ 5,284 | \$ (44) | 1% |
| Long-term debt | \$ 4,093 | \$ 5,085 | \$ (992) | 20% |
| Long-term liabilities | 1,039 | 275 | 764 | 278% |
| Other liabilities | 841 | 249 | 592 | 238% |
| Total liabilities | 5,973 | 5,609 | 364 | 6% |
| Deferred inflows of resources | 140 | - | 140 | 100% |
| Net position (deficit): | | | | |
| Net investment in capital assets | (81) | (510) | 429 | 84% |
| Unrestricted | (792) | 185 | (977) | 528% |
| Total net position (deficit) | (873) | (325) | (548) | 169% |
| Total liabilities, deferred inflows of resources and net position (deficit) | \$ 5,240 | \$ 5,284 | \$ (44) | 1% |

**General Services Division
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Management's Discussion and Analysis
Year Ended June 30, 2015**

**Condensed Statements of Revenues, Expenses, and Changes in Net Position
(Dollars in Thousands)**

| | <u>June 30</u> | | <u>Increase (Decrease)</u> | |
|--|-----------------|-----------------|----------------------------|-------------|
| | <u>2015</u> | <u>2014</u> | <u>\$</u> | <u>%</u> |
| Operating revenues | | | | |
| Fiber optic sales | \$ 1,423 | \$ 1,385 | \$ 38 | 3% |
| Small business | 1,487 | 1,240 | 247 | 20% |
| Co-location | 90 | 118 | (28) | 24% |
| Installation income | 56 | 79 | (23) | 29% |
| Forfeited discounts | 20 | 16 | 4 | 25% |
| Total operating revenues | <u>3,076</u> | <u>2,838</u> | <u>238</u> | <u>8%</u> |
| Other revenues | 11 | 25 | (14) | 56% |
| Total revenues | <u>3,087</u> | <u>2,863</u> | <u>224</u> | <u>8%</u> |
| Operating expenses | 2,541 | 2,182 | 359 | 16% |
| Other expenses | 22 | 29 | (7) | 24% |
| Total expenses | <u>2,563</u> | <u>2,211</u> | <u>352</u> | <u>16%</u> |
| Increase in net position | 524 | 652 | (128) | 20% |
| Beginning net position (deficit), as previously reported | (325) | (977) | 652 | 67% |
| Cumulative effect of change in accounting principle | (1,072) | - | (1,072) | -100% |
| Beginning net position (deficit), as restated | <u>(1,397)</u> | <u>(977)</u> | <u>(420)</u> | <u>43%</u> |
| Ending net position (deficit) | <u>\$ (873)</u> | <u>\$ (325)</u> | <u>\$ (548)</u> | <u>169%</u> |

**General Services Division
of Bowling Green Municipal Utilities
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Management's Discussion and Analysis
Year Ended June 30, 2015**

**Condensed Statements of Cash Flows
(Dollars in Thousands)**

| | June 30 | | Increase (Decrease) | |
|---|----------|----------|---------------------|------|
| | 2015 | 2014 | \$ | % |
| Operating activities | | | | |
| Cash received from customers | \$ 3,085 | \$ 2,799 | \$ 286 | 10% |
| Cash paid to employees | (878) | (823) | (55) | 7% |
| Cash paid to other suppliers | (1,194) | (839) | (355) | 42% |
| Other receipts, net | 10 | 42 | (32) | 76% |
| Net cash provided by operating activities | 1,023 | 1,179 | (156) | 13% |
| Noncapital financing activities | | | | |
| Merchandising revenue, net | 11 | 24 | (13) | 54% |
| Net cash provided by noncapital financing activities | 11 | 24 | (13) | 54% |
| Capital and related financing activities | | | | |
| Payments on long-term debt and capital leases | (391) | (40) | (351) | 878% |
| Purchase of capital assets | (548) | (562) | 14 | 2% |
| Interest paid | (278) | (504) | 226 | 45% |
| Proceeds from disposal of assets | 23 | - | 23 | -% |
| Net cash used in capital and related financing activities | (1,194) | (1,106) | (88) | 8% |
| Investing activities | | | | |
| Cash paid to joint venture | (15) | (30) | 15 | 50% |
| Net cash used in investing activities | (15) | (30) | 15 | 50% |
| Increase (decrease) in cash | (175) | 67 | (242) | 361% |
| Cash, beginning of year | 224 | 157 | 67 | 43% |
| Cash, end of year | \$ 49 | \$ 224 | \$ (175) | 78% |

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management's Discussion and Analysis
Year Ended June 30, 2015**

Comments Regarding Variances

Balance Sheets

Current assets are \$209,787 or 45.44% less in 2015 than in 2014 with cash and customer accounts receivable decreasing while inventory increased slightly.

Long-term liabilities increased \$764,410 or 277.97% in 2015. The increase is made up of net pension liability of \$1,039,410 that was recorded in conjunction with the adoption of GASB 68. Accrued interest payable that was recorded as a long-term liability at June 30, 2014, decreased by \$275,000. Other liabilities increased \$592,541 or 238.68% in 2015. The majority of the increase is the recording of a current portion of debt owed to the Water/Sewer division of \$600,000.

Statements of Revenues, Expenses and Changes in Net Position

The Division's revenues are from fiber optic sales, dark and lighted, small business internet and voice over internet phone, co-location rental and installation services. Fiber optic sales increased by \$37,589 or 2.71%. Small business internet and phone revenue increased by \$246,541 or 19.88%. Installation revenue decreased by \$22,931 or 29.02%.

Operating expenses for the Division totaled \$2,541,094 for the year. This reflects an increase from the prior year of \$359,123 or 16.46%. Included are three major categories, distribution, which increased by \$227,220 or 20.40%, administrative and general, which increased by \$92,598 or 15.27% and depreciation, which increased by \$39,305 or 8.51%.

The increase in net position for the year was \$523,929.

Statements of Cash Flows

Cash flows from operating activities for the current year totaled \$1,022,521. This is a decrease of \$150,418 or 12.82%.

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year, the Division's investment in capital amounted to \$4,655,000, which is stated net of \$4,403,000 of accumulated depreciation. This investment in capital includes:

- Fiber optic cable
- SONET hardware
- Operating systems and buildings

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Management's Discussion and Analysis
Year Ended June 30, 2015**

During 2015, the total net increase in the Division's investment in capital assets was \$38,102. Major capital asset events during 2015 include the following:

- Increase to distribution system of \$117,657 for expansion as needed to accommodate new customers.
- A \$416,476 increase to miscellaneous network equipment.

**Utility Plant, Net of Accumulated Depreciation
(Dollars in Thousands)**

| | June 30 | |
|--------------------------------------|----------|----------|
| | 2015 | 2014 |
| Fiber optic system, including design | \$ 5,451 | \$ 5,354 |
| SONET hardware | 773 | 773 |
| Operating systems and buildings | 279 | 277 |
| Vehicles | 113 | 92 |
| Miscellaneous network equipment | 2,364 | 1,946 |
| Total plant in service | 8,980 | 8,442 |
| Accumulated depreciation | 4,403 | 3,914 |
| | 4,577 | 4,528 |
| Construction in progress | 78 | 89 |
| Net utility plant | \$ 4,655 | \$ 4,617 |

Long-Term Debt, Capital Lease and Debt Administration

At the end of the fiscal year, the Division had \$4,650,000 in long-term debt outstanding to BGMU's Water/Sewer Division, issued during the 2002 – 2003, 2003 – 2004 and 2004 – 2005 fiscal years. The debt was restructured in June 2005 to be interest only at a 4.50% interest rate due annually over the following five years. The debt was re-evaluated in fiscal year 2011 and determined that interest would be suspended and become principal-only debt. Payments made toward accrued interest during the fiscal year totaled \$275,000 paying accrued interest in full. Payments made toward principle during the fiscal year totaled \$350,000.

During 2013, the Division entered into a five-year capital lease for network equipment. The lease calls for annual payments of \$44,597.

The City Commission must approve all debt issued. Management, however, continues to review and monitor current bond market conditions for evaluating the feasibility of restructuring any and all outstanding debt obligations if, and when, the opportunity presents itself and only after it is conclusively determined that it makes significant financial sense to pursue.

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management's Discussion and Analysis
Year Ended June 30, 2015**

Economic Factors and Rates

Many economic factors are considered each year by BGMU in its efforts to operate the Division. Some of these factors and information regarding rates include:

- The Division's fiber rates were originally set in 2001. A number of factors were considered when setting the rates including cost of the system, operating costs and competition in the market. After about six months of operation, rates were adjusted to allow the Division to be more competitive in the changing Bowling Green market. Management continues to adjust rates as deemed necessary as the market fluctuates.
- Employment costs: Health costs continue to rise for BGMU as they do for other employers. BGMU continues to investigate different health insurance programs to find a balance of cost efficiency and employee benefit. Rates for the current plans increased an average of 8.6% in fiscal year ending June 30, 2015. County Employees Retirement System of Kentucky (CERS), the Kentucky retirement system covering all BGMU employees, announced a decrease in BGMU's contribution, which is a percentage of annual covered payroll, for the 2015 – 2016 fiscal year from 17.67% to 17.06% and a decrease from 18.89% the previous fiscal year to 17.67%. The employee contribution remains 5.00%.
- The Division began offering telephone services to small and medium sized commercial customers in FY 2009. The telephone service is a Voice-Over-Internet-Protocol (VOIP) based service offered through a CLEC-certified wholesale VOIP provider.
- Significant capital projects anticipated in the next fiscal year include:
 - Fiber optic cable and design of system \$ 63,710
 - Network equipment – small and large \$ 364,387

With the newness of the system, it is difficult to estimate all capital projects. Other capital projects may be undertaken during the next fiscal year if management deems them necessary or essential to the operation of the Division and/or service to new or existing customers (with Board approval where required).

- The Division has entered into a joint venture with the WKU Research Foundation, Inc. The purpose is to provide Tier II data center co-location space to customers. At June 30, 2015, the investment in the Lost River Data Center totaled \$201,349.

Contacting the Division's Financial Management

This financial report is designed to provide our ratepayers, creditors, City officials and other persons with an interest in BGMU with a general overview of the Division's finances and to show the Division's accountability for the money it receives from ratepayers. If you have questions about this report or need financial information, contact the Division's chief financial officer at Bowling Green Municipal Utilities, 801 Center Street, P. O. Box 10300, Bowling Green, Kentucky 42102-7300.

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Balance Sheet
June 30, 2015**

Assets and Deferred Outflows of Resources

| | |
|---|----------------------------|
| Current Assets | |
| Cash | \$ 49,094 |
| Accounts receivables – customers | 65,161 |
| Account receivable – Electric Division | 24,277 |
| Inventories | 97,339 |
| Prepaid expenses | <u>15,991</u> |
| Total current assets | <u>251,862</u> |
| Utility Plant | |
| Utility plant in service, at cost | 8,979,926 |
| Construction in progress | <u>78,167</u> |
| | 9,058,093 |
| Accumulated depreciation | <u>(4,403,156)</u> |
| Total utility plant, net | <u>4,654,937</u> |
| Other Assets | <u>201,349</u> |
| Total assets | 5,108,148 |
| Deferred Outflows of Resources | <u>132,350</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 5,240,498</u></u> |

Liabilities, Deferred Inflows of Resources and Net Position (Deficit)

| | |
|--|---------------------|
| Current Liabilities | |
| Current maturities of long-term debt and capital lease | \$ 642,359 |
| Accounts payable | 91,308 |
| Accrued expenses | <u>107,134</u> |
| Total current liabilities | <u>840,801</u> |
| Noncurrent Liabilities | |
| Net pension liability | 1,039,410 |
| Long-term debt and capital lease | <u>4,093,465</u> |
| Total noncurrent liabilities | <u>5,132,875</u> |
| Total liabilities | <u>5,973,676</u> |
| Deferred Inflows of Resources | <u>140,245</u> |
| Net Position (Deficit) | |
| Net investment in capital assets | (80,887) |
| Unrestricted | <u>(792,536)</u> |
| Total net position (deficit) | <u>(873,423)</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 5,240,498</u> |

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2015**

| | |
|--|----------------------------|
| Operating Revenues | |
| Fiber optic sales | \$ 1,423,080 |
| Small business – internet and VOIP | 1,486,542 |
| Co-location | 90,309 |
| Installation income | 56,088 |
| Forfeited discounts | <u>20,264</u> |
| Total operating revenues | <u>3,076,283</u> |
| Operating Expenses | |
| Distribution | 1,340,966 |
| Administrative and general | 699,131 |
| Depreciation | <u>500,997</u> |
| Total operating expenses | <u>2,541,094</u> |
| Operating Income | <u>535,189</u> |
| Nonoperating Revenue (Expenses) | |
| Merchandising revenue | 11,099 |
| Loss from joint venture | (19,101) |
| Other expenses | <u>(3,258)</u> |
| Net nonoperating expenses | <u>(11,260)</u> |
| Increase in Net Position | <u>523,929</u> |
| Net Position (Deficit), Beginning of Year, as Previously Reported | (325,149) |
| Cumulative effect of change in accounting principle (Note 1) | <u>(1,072,203)</u> |
| Net Position (Deficit), Beginning of Year, as restated | <u>(1,397,352)</u> |
| Net Position (Deficit), End of Year | <u><u>\$ (873,423)</u></u> |

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statement of Cash Flows
Year Ended June 30, 2015**

| | |
|---|--------------------|
| Operating Activities | |
| Cash received from customers | \$ 3,084,594 |
| Cash paid to employees | (877,800) |
| Cash paid to other suppliers | (1,194,419) |
| Other receipts, net | <u>10,146</u> |
| Net cash provided by operating activities | <u>1,022,521</u> |
| Noncapital Financing Activities | |
| Merchandising revenue, net | <u>11,099</u> |
| Net cash provided by noncapital financing activities | <u>11,099</u> |
| Capital and Related Financing Activities | |
| Principal paid on long-term debt and capital lease | (391,282) |
| Purchase of capital assets | (547,704) |
| Proceeds from the sale of capital assets | 23,521 |
| Interest paid | <u>(278,315)</u> |
| Net cash used in capital and related financing activities | <u>(1,193,780)</u> |
| Investing Activities | |
| Cash invested in joint venture | (15,000) |
| Interest income | <u>57</u> |
| Net cash used in investing activities | <u>(14,943)</u> |
| Decrease in Cash | (175,103) |
| Cash, Beginning of Year | <u>224,197</u> |
| Cash, End of Year | <u>\$ 49,094</u> |

See Notes to Financial Statements

**Reconciliation of Net Operating Income to Net Cash
Provided by Operating Activities**

| | | |
|---|----|----------------|
| Operating income | \$ | 535,189 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | | 500,997 |
| Accounts receivable | | 29,994 |
| Inventories | | (9,043) |
| Prepaid expenses | | 3,587 |
| Accounts payable and accrued expenses | | (106,655) |
| Due from related parties | | 10,146 |
| Deferred outflows | | <u>34,058</u> |
| Net cash provided by operating activities | \$ | <u>998,273</u> |

Supplemental Cash Flows Information

| | | |
|--|----|--------|
| Utility plant and construction in progress in accounts payable | \$ | 20,686 |
|--|----|--------|

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Notes to Financial Statements
June 30, 2015**

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The General Services Division (Division) of the Bowling Green Municipal Utilities (BGMU) owns and operates the fiber optic network system in the City of Bowling Green, Kentucky (City).

Financial Reporting Division

BGMU is a municipal corporation governed by a five member board (Board). The members of the Board are appointed by the mayor subject to the approval of the City Commission. BGMU operates three distinct divisions: the Division, Electric Division (ED) and Water/Sewer Division (WSD) (hereinafter, collectively referred to as the Utilities). The Utilities provide electric, water/sewer and fiber optic services to the residents and businesses of the City. The Board has exclusive jurisdiction and control over the construction, equipment, management and operation of BGMU. None of the operating Divisions are responsible for the debts of the other Divisions.

These financial statements represent only the Division and are not intended to present the financial position, results of operations and cash flows of the Utilities in conformity with accounting principles generally accepted in the United States of America.

BGMU is a component unit of the City. Accordingly, BGMU's financial statements are included in the City's general purpose financial statements because of BGMU's financial relationship with the City. Those relationships include:

- Four of the five Board members are appointed by the mayor and approved by the City Commission. The fifth member is one of the members of the City Commission, designated by the mayor, with the approval of the Board of Commissioners.

Basis of Accounting and Presentation

The financial statements of the Division have been prepared on the accrual basis of accounting. All activities of the Division are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are: (a) financed and operated in a manner similar to private enterprises where the intent of the governing body is that the cost (expenses, 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.

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The accounting and financial reporting treatment applied to the Division is determined by its measurement focus. The transactions of the Division 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 balance sheet.

Use of Estimates

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

Accounts Receivable

Accounts receivable is reported net of an allowance for uncollectible amounts. No allowance for uncollectible accounts was recorded as of June 30, 2015. The Division's operating revenues are recognized on the basis of monthly billings. If payment has not been received on or before the eighth day following the due date of the bill, all services are subject to disconnection. After all internal attempts have been made to collect, accounts are turned over to a collection agency within three months unless a payment agreement is signed. New service is denied until all outstanding balances have been settled.

Inventories

Inventories primarily consists of plant materials and are stated at the lower of cost or market, on an average cost method.

Utility Plant

Utility plant is stated at original cost when first constructed or purchased. The cost of the current repairs and maintenance is charged to expense as incurred while the cost of replacements and betterments is capitalized.

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Depreciation

Provision for depreciation of the utility plant is computed on the straight-line method, using rates based on estimated useful lives as follows:

| | |
|--------------------------------|--------------|
| Structures and improvements | 20 years |
| Fiber optic system | 20 years |
| Equipment | 5 – 10 years |
| Vehicles | 5 years |
| Office furniture and equipment | 7 years |

Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Cost-Sharing Defined Benefit Pension Plan

The Division participates in the county employees retirement system (CERS), a component unit of the Commonwealth of Kentucky, a cost-sharing multiple-employer defined benefit pension plan (the Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. Investments are reported at fair value.

Net Position

Net position of the Division is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Operating Revenues

The Division recognizes sales revenue based on monthly billings.

Income Taxes

The Division is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for such taxes.

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Change in Accounting Principle

During the year ended June 30, 2015, the Division adopted *Governmental Accounting Standards Board (GASB) No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment of GASB Statement No. 68*. The provisions of this statement were retroactively applied, and accordingly, the Division's net position as of July 1, 2014, was reduced by \$1,072,203.

Note 2: Deposits, Investments and Investment Return

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Division's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kentucky, bonds of any city, county, school district or special road district of the state of Kentucky or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2015, the carrying amounts of the Division's deposits were \$49,094 and the bank balances were \$73,038, which was covered by federal deposit insurance or by collateral held by the bank's agent in the Division's name.

Investments

The Division may legally invest in direct obligations and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in Kentucky bonds and certificates of indebtedness, highly-rated securities issued by a state or local government in the United States and certain other investments more fully described in Kentucky Revised Statutes (KRS). The Division had no investments at June 30, 2015.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheet as follows:

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| | |
|----------------|------------------|
| Carrying value | |
| Cash | \$ <u>49,094</u> |

Note 3: Investment in Joint Venture

On September 1, 2011, the Division entered a joint venture agreement with a third party to establish the Lost River Data Center, a co-location center offering businesses a secure site to house servers and critical data. The agreement established the initial equity positions based on the parties' contributions with all future profits and losses divided equally. Using the equity method of accounting, the Division's investment in Lost River Data Center at June 30, 2015, was \$201,349. The Division recognized a loss of \$19,101 during the year ended June 30, 2015, for its share of Lost River Data Center's loss.

Note 4: Utility Plant

Utility plant activity for the year ended June 30 was:

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|------------------------------------|----------------------|-----------|-------------|-----------|-------------------|
| Overhead conductors and devices | \$ 5,353,945 | \$ 24,506 | \$ (15,060) | \$ 87,505 | \$ 5,450,896 |
| Equipment – SONET hardware | 772,856 | - | - | - | 772,856 |
| Structures and improvements, nodes | 277,707 | 1,642 | - | - | 279,349 |
| Office furniture and equipment | 4,866 | - | - | - | 4,866 |
| Transportation equipment | 92,058 | 20,430 | - | - | 112,488 |
| Testing equipment | 65,016 | 4,004 | - | - | 69,020 |
| Computer equipment | 174,462 | - | - | - | 174,462 |
| Miscellaneous equipment | 1,699,513 | 242,053 | (18,394) | 192,817 | 2,115,989 |
| Utility plant in service | 8,440,423 | 292,635 | (33,454) | 280,322 | 8,979,926 |
| Construction in progress | 88,707 | 269,782 | - | (280,322) | 78,167 |
| Total utility plant | 8,529,130 | 562,417 | (33,454) | - | 9,058,093 |
| Accumulated depreciation | (3,912,295) | (500,997) | 10,136 | - | (4,403,156) |
| Utility plant, net | \$ 4,616,835 | \$ 61,420 | \$ (23,318) | \$ - | \$ 4,654,937 |

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Note 5: Long-Term and Capital Lease Obligation

The following is a summary of long-term obligation transactions for the Division for the year ended June 30:

| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
|---------------------------------|----------------------|-------------|-------------------|---------------------|--------------------|
| Long-term debt | | | | | |
| Note payable to WSD | \$ 5,000,000 | \$ - | \$ 350,000 | \$ 4,650,000 | \$ 600,000 |
| Capital lease obligation | 127,106 | - | 41,282 | 85,824 | 42,359 |
| Total long-term debt | 5,127,106 | - | 391,282 | 4,735,824 | 642,359 |
| Other long-term liabilities | | | | | |
| Accrued interest payable to WSD | 275,000 | - | 275,000 | - | - |
| Total long-term obligations | <u>\$ 5,402,106</u> | <u>\$ -</u> | <u>\$ 666,282</u> | <u>\$ 4,735,824</u> | <u>\$ 642,359</u> |

Note Payable to WSD

The unsecured note payable to the WSD for the original amount of \$5,000,000 has no formal repayment plan as of June 30, 2015. However, WSD's board of directors has budgeted to pay principal payments totaling \$600,000 in the fiscal year ended June 30, 2016. As a result, \$600,000 is classified as a current liability. Effective July 1, 2010, the charging of interest on this note was suspended by the WSD's board of directors. The interest portion of the note payable was fully paid in the fiscal year ended June 30, 2015.

Capital Lease Obligation

The Division is obligated under a lease for equipment that is accounted for as a capital lease. Assets under this capital lease at June 30, 2015, totaled \$149,159, net of accumulated depreciation of \$61,418. The following is a schedule by year of future minimum lease payments under the capital lease including interest at a rate of 2.58% together with the present value of the future minimum lease payments as of June 30, 2015:

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| | |
|--|-------------------------|
| 2016 | \$ 44,597 |
| 2017 | <u>44,597</u> |
| Total minimum lease payments | 89,194 |
| Less amount representing interest | <u>3,370</u> |
| Present value of future minimum lease payments | <u><u>\$ 85,824</u></u> |

Note 6: Related-Party Transactions

BGMU is composed of three Utilities. Shared office facilities were owned by either ED or WSD and charged monthly to the Division. Joint purchases and other routine services are performed by or for the Division. Receivables from and payables to the WSD and ED and other related-party transactions are as follows for the year ended June 30:

| | |
|---------------------------------------|--------------|
| Balances | |
| Receivable from ED | \$ 24,277 |
| Payable to WSD | \$ (4,391) |
| Current payable to WSD | \$ 600,000 |
| Long-term payable to WSD | \$ 4,050,000 |
| Transactions | |
| Office rent expense to ED | \$ 25,564 |
| Office rent expense to WSD | \$ 19,080 |
| Utility sales to WSD | \$ 53,787 |
| Utility sales to ED | \$ 96,037 |
| Utility purchases from ED | \$ 30,586 |
| Utility pole rental from ED | \$ 60,479 |
| Rent expense to WSD (computer rental) | \$ 960 |
| Interest paid to WSD | \$ 275,000 |

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Note 7: Pension Plans

Plan Description

The Division contributes to the CERS, a component unit of the Commonwealth of Kentucky, a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees. The Plan is administered by a board of trustees appointed by the Kentucky Retirement Systems (KRS). Benefit provisions are contained in the plan document and were established and can be amended by action of the KRS' governing body. The Plan issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

The Plan provides retirement, disability and death benefits to plan members or their beneficiaries. The Plan is made up of three different Tier Plans, depending on an employee's original participation date with KRS. Retirement benefits for employees are calculated based on a benefit formula. The calculation is Final Compensation times Benefit Factor times Years of Service. These factors are slightly different depending of what Tier Plan is involved. Death benefits are equal to \$5,000 if the retired member was receiving a monthly benefit based on at least 48 months or more of combined service. For employees participating prior to August 1, 2004, disability benefits are calculated in the same manner as normal retirement benefits except that additional months of service may be added to the member's account depending on age and years of service. Members participating on or after August 1, 2004, will be eligible for disability benefits based upon a different formula. The formula for nonhazardous members provides a disability benefit that is the higher of 20% of the final rate of pay, early/normal benefit based on actual service, actual age at retirement, actual Final Compensation with reduction or the retirement allowance determined in the same manner as for retirement at his or her normal retirement date with years of service and Final Compensation being determined as of the date of his or her disability.

Senate Bill 2 provides that a Cost Of Living Adjustment (COLA) for retirees is only permitted under two scenarios:

1. The particular system for which the COLA is provided:
 - Is greater than 100% funded
 - The COLA will not reduce the funding level of the system below 100%
 - The COLA must be authorized by the legislature to be paid using surplus funds
2. The legislature prefunds the COLA

**General Services Division
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Notes to the Financial Statements
June 30, 2015**

Contributions

The KRS Board of Trustees determines CERS employer contribution rates necessary for the actuarial soundness of KRS as required by *Kentucky Revised Statutes 61.565 and 61.702*. Those rates can be altered by legislation enacted by the Kentucky General Assembly. Employees are required to contribute 5% of their annual pay. If employed on or after September 1, 2008, employees are required to contribute an additional 1% of their annual pay toward health insurance benefits. The Division's contractually required contribution rate for the year ended June 30, 2015, was 17.67% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. For the year ended June 30, 2015, contributions to the pension plan from the Division were \$132,350.

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

At June 30, 2015, the Division reported a liability of \$1,039,410 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. BGMU's proportion of the net pension liability was based on a projection of the Division's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, BGMU's proportion was 0.498258%. The Division's proportion of BGMU's net pension liability was based on the Division's share of contributions relative to the contributions of all three divisions of BGMU.

For the year ended June 30, 2015, the Division recognized pension expense of \$83,204. At June 30, 2015, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ 115,997 |
| Division's contributions subsequent to the measurement date | 132,350 | - |
| Total | <u>\$ 132,350</u> | <u>\$ 115,997</u> |

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
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June 30, 2015**

At June 30, 2015, the Division reported \$132,350 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Deferred inflows of resources at June 30, 2015, related to pensions will be recognized in pension expense as follows:

| | Year Ending June 30 |
|------|--------------------------------|
| 2016 | \$ 28,999 |
| 2017 | 28,999 |
| 2018 | 28,999 |
| 2019 | 29,000 |
| | \$ 115,997 |

Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 3.5% |
| Salary increases | 4.5%, average, including inflation |
| Investment rate of return | 7.75%, net of pension plan investment expense, including inflation |

Mortality rates were based on the 1983 Group Annuity Mortality Tables for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members.

The actuarial assumptions used in the June 30, 2014, valuation was based on the results of an actuarial experience study for the period July 1, 2005, through June 30, 2008.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of

**General Services Division
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return for funding pension plans, which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for the year ended June 30, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The Division's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the Division's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

| <u>1% Decrease</u> | <u>Current Discount Rate</u> | <u>1% Increase</u> |
|--------------------|--------------------------------------|--------------------|
| \$ 1,367,794 | \$ 1,039,410 | \$ 749,275 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial report.

Payable to the Pension Plan

At June 30, 2015, the Division reported a payable of \$12,041, for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015, that were remitted in July 2015.

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Notes to the Financial Statements
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Note 8: Risk Management

The Division is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters and employee health and accident benefits.

The Division carries commercial insurance coverage for all risks of loss, including workers' compensation and natural disasters. Settled claims have not exceeded this commercial coverage in any of the preceding years.

Note 9: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Required Supplementary Information

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of the Division's Proportionate Share of the Net Pension Liability
County Employees Retirement System of the State of Kentucky
Last Ten Fiscal Years**

| | <u>2015</u> |
|--|--------------|
| Division's proportion of the net pension liability | 0.0320% |
| Division's proportionate share of the net pension liability | \$ 1,039,410 |
| Division's covered-employee payroll | 749,009 |
| Division's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 138.77% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.80% |

Note to Schedule: This schedule is intended to show a 10-year trend.
Additional years will be reported as they become available.

**General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of Division's Contributions
County Employees Retirement System of the State of Kentucky
Last Ten Fiscal Years**

| | 2015 |
|---|-------------|
| Contractually required contribution | \$ 132,350 |
| Contribution in relation to the contractually required contribution | 132,350 |
| Contribution deficiency (excess) | \$ - |
| Division's covered-employee payroll | 749,009 |
| Contributions as a percentage of covered-employee payroll | 17.67% |

Note to Schedule: This schedule is intended to show a 10-year trend.
Additional years will be reported as they become available.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Bowling Green Municipal Utilities
Bowling Green, Kentucky

We have audited, 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, the financial statements of the General Services Division (Division), a division of Bowling Green Municipal Utilities, which is a component unit of the City of Bowling Green, Kentucky, which comprise the balance sheet as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 30, 2015, which contained *Emphasis of Matter* paragraphs regarding divisional reporting and a change in accounting principle.

Internal Control Over Financial Reporting

Management of the Division is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Division's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division'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 Division'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division'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*.

We noted certain matters that we reported to the Division's management in a separate letter dated September 30, 2015.

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 Division'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 Division's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Bowling Green, Kentucky
September 30, 2015