

**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, 2017 and 2016



**General Services Division  
of Bowling Green Municipal Utilities  
A Component Unit of the City of Bowling Green, Kentucky  
June 30, 2017 and 2016**

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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 years ended June 30, 2017 and 2016, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years 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, 2017 and 2016, the changes in its financial position or its cash flows for the years 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.

### ***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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, 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 29, 2017

**General Services Division  
of Bowling Green Municipal Utilities  
A Component Unit of the City of Bowling Green, Kentucky  
Management's Discussion and Analysis  
Years Ended June 30, 2017 and 2016**

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, 2017. 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 decreased by \$96,533, or 2.11%.
- The Division's total assets and deferred outflows of resources increased \$326,616, or 6.05%.
- The Division's net position increased by \$783,193.
- The Division's operating revenue increased by \$330,974, or 9.64%.
- The Division's net cash provided by operations increased by \$207,795.

***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 creditworthiness.

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?"

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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.

***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, 2017, are Donna Harmon (chairperson), Sarah Glenn Grise (secretary), Steve Snodgrass, Todd Davis 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 (hereinafter 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 Division's 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, virtual local area network (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

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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.

At June 30, 2017, the Division has 530 customers. Services provided to those customers includes 143 dark fiber connections, 930 lighted fiber connections (including BGMU's other two Divisions), 29 co-location services, 499 small business offering customers and approximately 3,693 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.



**General Services Division  
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**Condensed Balance Sheets  
(Dollars in Thousands)**

	June 30			Increase (Decrease) 2016 to 2017	
	2017	2016	2015	\$	%
Current and other assets	\$ 922	\$ 587	\$ 453	\$ 335	57%
Utility plant	4,469	4,566	4,655	(97)	2%
Total assets	5,391	5,153	5,108	238	5%
Deferred outflows of resources	333	245	108	88	36%
Total assets and deferred outflows of resources	<u>\$ 5,724</u>	<u>\$ 5,398</u>	<u>\$ 5,216</u>	<u>\$ 326</u>	<u>6%</u>
Long-term debt	\$ 2,850	\$ 3,450	\$ 4,093	\$ (600)	17%
Long-term liabilities	1,565	1,393	1,039	172	12%
Other liabilities	798	846	841	(48)	6%
Total liabilities	5,213	5,689	5,973	(476)	8%
Deferred inflows of resources	19	-	116	19	0%
Net position (deficit)					
Net investment in capital assets	1,019	475	(81)	544	115%
Unrestricted	(527)	(766)	(792)	239	31%
Total net position (deficit)	492	(291)	(873)	783	269%
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,724</u>	<u>\$ 5,398</u>	<u>\$ 5,216</u>	<u>\$ 326</u>	<u>6%</u>

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

	June 30			Increase (Decrease) 2016 to 2017	
	2017	2016	2015	\$	%
Operating revenues					
Fiber optic sales	\$ 1,647	\$ 1,472	\$ 1,423	\$ 175	12%
Small business	1,898	1,775	1,487	123	7%
Co-location	106	97	90	9	9%
Installation income	93	67	56	26	39%
Forfeited discounts	21	23	20	(2)	9%
Total operating revenues	3,765	3,434	3,076	331	10%
Other revenues	15	13	11	2	15%
Total revenues	3,780	3,447	3,087	333	10%
Operating expenses	2,987	2,835	2,541	152	5%
Other expenses	10	30	22	(20)	67%
Total expenses	2,997	2,865	2,563	132	5%
Increase in net position	783	582	524	201	35%
Beginning net position (deficit), as previously reported	(291)	(873)	(325)	582	67%
Cumulative effect of change in accounting principle	-	-	(1,072)	-	0%
Beginning net position (deficit), as restated	(291)	(873)	(1,397)	582	67%
Ending net position (deficit)	\$ 492	\$ (291)	\$ (873)	\$ 783	269%

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

	June 30			Increase (Decrease) 2016 to 2017	
	2017	2016	2015	\$	%
Operating activities					
Cash received from customers	\$ 3,766	\$ 3,464	\$ 3,085	\$ 302	9%
Cash paid to employees	(1,037)	(981)	(878)	(56)	6%
Cash paid to other suppliers	(1,257)	(1,219)	(1,194)	(38)	3%
Other receipts, net	12	13	10	(1)	8%
Net cash provided by operating activities	<u>1,484</u>	<u>1,277</u>	<u>1,023</u>	<u>207</u>	<u>16%</u>
Noncapital financing activities					
Merchandising revenue, net	14	14	11	-	0%
Net cash provided by noncapital financing activities	<u>14</u>	<u>14</u>	<u>11</u>	<u>-</u>	<u>0%</u>
Capital and related financing activities					
Payments on long-term debt and capital leases	(641)	(645)	(391)	4	1%
Purchase of capital assets	(566)	(527)	(548)	(39)	7%
Interest paid	(3)	-	(278)	(3)	0%
Proceeds from disposal of assets	78	60	23	18	30%
Net cash used in capital and related financing activities	<u>(1,132)</u>	<u>(1,112)</u>	<u>(1,194)</u>	<u>(20)</u>	<u>2%</u>
Investing activities					
Cash paid to joint venture	(20)	(10)	(15)	(10)	100%
Net cash used in investing activities	<u>(20)</u>	<u>(10)</u>	<u>(15)</u>	<u>(10)</u>	<u>100%</u>
Increase (decrease) in cash	346	169	(175)	177	105%
Cash, beginning of year	218	49	224	169	345%
Cash, end of year	<u>\$ 564</u>	<u>\$ 218</u>	<u>\$ 49</u>	<u>\$ 346</u>	<u>159%</u>

**Comments Regarding Variances**

**Balance Sheets**

Current assets are \$321,895, or 79.30%, greater in 2017 than in 2016, with cash and inventory increasing.

Long-term liabilities decreased \$427,500, or 8.83%, in 2017 with net pension liability increasing and long-term debt and capital lease decreasing due to normal debt payments.

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***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 \$174,255, or 11.83%. Small business internet and phone revenue increased by \$123,591, or 6.96%. Installation revenue decreased by \$26,628, or 40.14%.

Operating expenses for the Division totaled \$2,986,548 for the year. This reflects an increase from the prior year of \$151,270, or 5.34%. Included are three major categories, distribution; which increased by \$121,585, or 8.40%, administrative and general, which increased by \$5,385, or 0.64%, and depreciation, which increased by \$24,300, or 4.42%.

The increase in net position for the year was \$783,193.

***Statements of Cash Flows***

Cash flows from operating activities for the current year totaled \$1,484,452. This is an increase of \$207,795, or 16.28%.

***Capital Assets and Debt Administration***

***Capital Assets***

At the end of the fiscal year, the Division's investment in capital amounted to approximately \$4,469,000, which is stated net of approximately \$5,451,000 of accumulated depreciation. This investment in capital includes:

- Fiber optic cable
- Synchronous Optical Network (SONET) hardware
- Operating systems and buildings

During 2017, the total net decrease in the Division's investment in capital assets was approximately \$97,000. Major capital asset events during 2017 include the following:

- Increase to fiber optic system of \$131,009 for expansion as needed to accommodate new customers
- A \$175,774 increase to miscellaneous network equipment

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

	<b>June 30</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Fiber optic system, including design	\$ 5,729	\$ 5,598	\$ 5,451
SONET hardware	773	773	773
Operating systems and buildings	312	310	279
Vehicles	189	112	113
Miscellaneous network equipment	2,854	2,661	2,364
<b>Total plant in service</b>	<b>9,857</b>	<b>9,454</b>	<b>8,980</b>
<b>Accumulated depreciation</b>	<b>5,451</b>	<b>4,920</b>	<b>4,403</b>
	4,406	4,534	4,577
<b>Construction in progress</b>	<b>63</b>	<b>32</b>	<b>78</b>
<b>Net utility plant</b>	<b>\$ 4,469</b>	<b>\$ 4,566</b>	<b>\$ 4,655</b>

***Long-Term Debt, Capital Lease and Debt Administration***

At the end of the fiscal year, the Division had \$3,450,000 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 principal during the fiscal year totaled \$600,000.

During 2013, the Division entered into a five-year capital lease for network equipment. The lease calls for annual payments of \$44,597. The final lease payment was made in the year ended June 30, 2017.

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.

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***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. County Employees Retirement System of Kentucky (CERS), the Kentucky retirement system covering all BGMU employees, announced an increase in BGMU's contribution, which is a percentage of annual covered payroll, for the 2017–2018 fiscal year from 18.68% to 19.18%. 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 competitive local exchange carrier (CLEC) certified wholesale VOIP provider.
- Significant capital projects anticipated in the next fiscal year include:

Fiber optic cable and design of system	\$ 92,894
Network equipment – small and large	\$ 264,676

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, 2017, the investment in the Lost River Data Center totaled \$193,711.

***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, KY 42102-7300.

**General Services Division  
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Balance Sheets  
June 30, 2017 and 2016**

**Assets and Deferred Outflows of Resources**

	<u>2017</u>	<u>2016</u>
<b>Current Assets</b>		
Cash	\$ 564,141	\$ 217,865
Accounts receivable – customers, net of allowance; 2017 – \$3,674, 2016 – \$4,000	36,544	46,701
Account receivable – Electric Division	-	11,587
Inventories	104,722	112,613
Prepaid expenses	<u>22,406</u>	<u>17,152</u>
Total current assets	<u>727,813</u>	<u>405,918</u>
<b>Utility Plant</b>		
Utility plant in service, at cost	9,857,396	9,454,445
Construction in progress	<u>63,304</u>	<u>32,331</u>
	9,920,700	9,486,776
Accumulated depreciation	<u>(5,450,861)</u>	<u>(4,920,404)</u>
Total utility plant, net	<u>4,469,839</u>	<u>4,566,372</u>
<b>Other Assets</b>	<u>193,711</u>	<u>180,895</u>
Total assets	5,391,363	5,153,185
<b>Deferred Outflows of Resources</b>	<u>333,041</u>	<u>244,603</u>
Total assets and deferred outflows of resources	<u>\$ 5,724,404</u>	<u>\$ 5,397,788</u>

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

	<u>2017</u>	<u>2016</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt and capital lease	\$ 600,000	\$ 641,226
Accounts payable	125,814	97,812
Accounts payable — Electric Division	3,477	-
Accounts payable — Water/Sewer Division	3,434	4,477
Accrued expenses	<u>64,810</u>	<u>101,990</u>
Total current liabilities	<u>797,535</u>	<u>845,505</u>
<b>Noncurrent Liabilities</b>		
Net pension liability	1,565,505	1,393,005
Long-term debt	<u>2,850,000</u>	<u>3,450,000</u>
Total noncurrent liabilities	<u>4,415,505</u>	<u>4,843,005</u>
Total liabilities	<u>5,213,040</u>	<u>5,688,510</u>
<b>Deferred Inflows of Resources</b>	<u>18,893</u>	<u>-</u>
<b>Net Position (Deficit)</b>		
Net investment in capital assets	1,019,839	475,146
Unrestricted	<u>(527,368)</u>	<u>(765,868)</u>
Total net position (deficit)	<u>492,471</u>	<u>(290,722)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,724,404</u>	<u>\$ 5,397,788</u>



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Statements of Revenues, Expenses and Changes in Net Position  
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	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>		
Fiber optic sales, net of discounts	\$ 1,646,800	\$ 1,472,545
Small business – internet and VOIP	1,898,492	1,774,901
Co-location	106,368	97,244
Installation income	92,974	66,346
Forfeited discounts	<u>20,658</u>	<u>23,282</u>
Total operating revenues	<u>3,765,292</u>	<u>3,434,318</u>
<b>Operating Expenses</b>		
Distribution	1,568,806	1,447,221
Administrative and general	844,079	838,694
Depreciation	<u>573,663</u>	<u>549,363</u>
Total operating expenses	<u>2,986,548</u>	<u>2,835,278</u>
<b>Operating Income</b>	<u>778,744</u>	<u>599,040</u>
<b>Nonoperating Revenue (Expenses)</b>		
Merchandising revenue	13,959	13,966
Gain on disposition of assets	912	-
Loss from joint venture	(7,184)	(30,454)
Other income (expenses)	<u>(3,238)</u>	<u>149</u>
Net nonoperating revenue (expenses)	<u>4,449</u>	<u>(16,339)</u>
<b>Increase in Net Position</b>	783,193	582,701
<b>Net Deficit, Beginning of Year</b>	<u>(290,722)</u>	<u>(873,423)</u>
<b>Net Position (Deficit), End of Year</b>	<u>\$ 492,471</u>	<u>\$ (290,722)</u>

**General Services Division  
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Statements of Cash Flows  
Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating Activities</b>		
Cash received from customers	\$ 3,766,806	\$ 3,463,956
Cash paid to employees	(1,037,395)	(980,683)
Cash paid to other suppliers	(1,256,546)	(1,219,306)
Other receipts, net	11,587	12,690
Net cash provided by operating activities	1,484,452	1,276,657
<b>Noncapital Financing Activities</b>		
Merchandising revenue, net	13,959	13,966
Net cash provided by noncapital financing activities	13,959	13,966
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt and capital lease	(641,226)	(644,598)
Purchase of utility plant	(565,976)	(526,872)
Proceeds from the sale of utility plant	78,305	59,577
Interest paid	(3,371)	-
Net cash used in capital and related financing activities	(1,132,268)	(1,111,893)
<b>Investing Activities</b>		
Cash invested in joint venture	(20,000)	(10,000)
Interest income	133	41
Net cash used in investing activities	(19,867)	(9,959)
<b>Increase in Cash</b>	346,276	168,771
<b>Cash, Beginning of Year</b>	217,865	49,094
<b>Cash, End of Year</b>	\$ 564,141	\$ 217,865

See Notes to Financial Statements

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of Net Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 778,744	\$ 599,040
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	573,663	549,363
Accounts receivable – customers	10,157	18,460
Inventories	7,891	(15,274)
Prepaid expenses	(5,254)	(1,161)
Deferred outflows of resources	(88,438)	(136,501)
Accounts payable and accrued expenses	4,709	12,442
Due from related parties	11,587	12,690
Net pension liability	172,500	353,595
Deferred inflows of resources	18,893	(115,997)
	<u>\$ 1,484,452</u>	<u>\$ 1,276,657</u>
Net cash provided by operating activities		
<b>Supplemental Cash Flows Information</b>		
Utility plant and construction in progress in accounts payable	\$ 2,628	\$ 14,081

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**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, which has been provided based on management's analysis of historical trends. 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 (Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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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***Reclassifications***

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in financial position.

**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. State law also allows uncollateralized deposits issued by any bank rated in one of the three highest categories by a nationally recognized rating agency.

At June 30, 2017 and 2016, the carrying amounts of the Division's deposits were \$564,141 and \$217,865, respectively, and the bank balances were \$575,138 and \$219,465, respectively, 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, 2017 and 2016.

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**Summary of Carrying Values**

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

	<u>2017</u>	<u>2016</u>
Carrying value		
Cash	<u>\$ 564,141</u>	<u>\$ 217,865</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 (LRDC), 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 LRDC at June 30, 2017 and 2016, was \$193,711 and \$180,895, respectively. The Division recognized a loss of \$7,184 and \$30,454 during the years ended June 30, 2017 and 2016, for its share of LRDC's loss. The Division contributed \$20,000 and \$10,000 during the years ended June 30, 2017 and 2016, respectively.



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**Note 4: Utility Plant**

Utility plant activity for the years ended June 30, 2017 and 2016, were:

	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Overhead conductors and devices	\$ 5,597,971	\$ -	\$ -	\$ 131,009	\$ 5,728,980
Equipment – SONET hardware	772,856	-	-	-	772,856
Structures and improvements, nodes	310,558	1,661	-	-	312,219
Office furniture and equipment	4,866	9,631	-	-	14,497
Transportation equipment	112,488	77,764	(1,300)	-	188,952
Testing equipment	70,566	8,412	-	-	78,978
Computer equipment	174,915	-	-	-	174,915
Miscellaneous equipment	2,410,225	132,855	(119,299)	162,218	2,585,999
Utility plant in service	9,454,445	230,323	(120,599)	293,227	9,857,396
Construction in progress	32,331	324,200	-	(293,227)	63,304
Total utility plant	9,486,776	554,523	(120,599)	-	9,920,700
Accumulated depreciation	(4,920,404)	(573,663)	43,206	-	(5,450,861)
Utility plant, net	<u>\$ 4,566,372</u>	<u>\$ (19,140)</u>	<u>\$ (77,393)</u>	<u>\$ -</u>	<u>\$ 4,469,839</u>
	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Overhead conductors and devices	\$ 5,450,896	\$ 9,772	\$ (1,237)	\$ 138,540	\$ 5,597,971
Equipment – SONET hardware	772,856	-	-	-	772,856
Structures and improvements, nodes	279,349	5,126	-	26,083	310,558
Office furniture and equipment	4,866	-	-	-	4,866
Transportation equipment	112,488	-	-	-	112,488
Testing equipment	69,020	1,546	-	-	70,566
Computer equipment	174,462	453	-	-	174,915
Miscellaneous equipment	2,115,989	214,639	(90,347)	169,944	2,410,225
Utility plant in service	8,979,926	231,536	(91,584)	334,567	9,454,445
Construction in progress	78,167	288,731	-	(334,567)	32,331
Total utility plant	9,058,093	520,267	(91,584)	-	9,486,776
Accumulated depreciation	(4,403,156)	(549,363)	32,115	-	(4,920,404)
Utility plant, net	<u>\$ 4,654,937</u>	<u>\$ (29,096)</u>	<u>\$ (59,469)</u>	<u>\$ -</u>	<u>\$ 4,566,372</u>

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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 years ended June 30, 2017 and 2016:

	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Note payable to WSD	\$ 4,050,000	\$ -	\$ 600,000	\$ 3,450,000	\$ 600,000
Capital lease obligation	41,226	-	41,226	-	-
Total long-term obligations	<u>\$ 4,091,226</u>	<u>\$ -</u>	<u>\$ 641,226</u>	<u>\$ 3,450,000</u>	<u>\$ 600,000</u>
	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Note payable to WSD	\$ 4,650,000	\$ -	\$ 600,000	\$ 4,050,000	\$ 600,000
Capital lease obligation	85,824	-	44,598	41,226	41,226
Total long-term obligations	<u>\$ 4,735,824</u>	<u>\$ -</u>	<u>\$ 644,598</u>	<u>\$ 4,091,226</u>	<u>\$ 641,226</u>

**Note Payable to Water/Sewer Division**

The unsecured note payable to the WSD for the original amount of \$5,000,000 has no formal repayment plan as of June 30, 2017. However, WSD's board of directors has budgeted to pay principal payments totaling \$600,000 in the fiscal year ending June 30, 2018. 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.

**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, 2017 and 2016, totaled \$107,043 and \$128,101, respectively, net of accumulated depreciation of \$103,534 and \$82,476, respectively. The implicit interest rate of the capital lease is 2.58%.

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**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 years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balances		
Receivable from ED	\$ -	\$ 11,587
Payable to ED	\$ (3,477)	\$ -
Payable to WSD	\$ (3,434)	\$ (4,477)
Current payable to WSD	\$ 600,000	\$ 600,000
Long-term payable to WSD	\$ 2,850,000	\$ 3,450,000
Transactions		
Office rent expense to ED	\$ 27,564	\$ 27,564
Office rent expense to WSD	\$ 19,200	\$ 19,200
Utility sales to ED	\$ 101,497	\$ 98,589
Utility sales to WSD	\$ 50,310	\$ 54,782
Utility purchases from ED	\$ 29,505	\$ 27,843
Utility purchases from WSD	\$ 1,353	\$ 585
Utility pole rental from ED	\$ 60,503	\$ 60,479
Rent expense to WSD (computer rental)	\$ 960	\$ 960

**Note 7: Pension Plan**

***Plan Description***

The Division contributes to the nonhazardous 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 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](http://www.kyret.ky.gov).

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**Benefits Provided**

Nonhazardous	Tier 1 Participation Prior to September 1, 2004	Tier 2 Participation September 1, 2008, Through December 31, 2013	Tier 3 Participation on or After January 1, 2014
<b>Benefit Formula</b>	Final Compensation X Benefit Factor X Years of Service.		Cash balance plan.
<b>Final Compensation</b>	Average of the highest five fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	Five complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No final compensation.
<b>Benefit Factor</b>	2.2% if the participation date was before August 1, 2004, or 2.0% if participation date was after August 1, 2004.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but not more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
<b>Cost of Living Adjustment (COLA)</b>	No COLA unless authorized by the Legislature. If authorized, COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit</b>	Any age with 27 years of service. Age 65 with 48 months of service. Money purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No money purchase calculations.	
<b>Reduced Retirement Benefit</b>	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

**Contributions**

The KRS board of trustees determines CERS employer contribution rates necessary for the actuarial soundness of KRS as required by KRS 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. Employees with a participation date after September 1, 2008, are required to contribute an additional 1% of their annual pay for retiree health care benefits. The Division's contractually required contribution rate applied to pension (13.95% and 12.42%) and insurance (4.73% and 4.64%) for the years ended June 30, 2017 and 2016, was 18.68% and 17.06%, respectively, 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, with an additional amount to finance any unfunded accrued liability. For the years ended June 30, 2017 and 2016, contributions to the pension plan from the Division were \$114,547 and \$95,714, respectively.

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

At June 30, 2017 and 2016, the Division reported a liability of \$1,565,505 and \$1,393,005, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively, 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, 2017 and 2016, BGMU's proportion was 0.488670% and 0.499271%, respectively. 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 years ended June 30, 2017 and 2016, the Division recognized pension expense of \$212,369 and \$196,810, respectively. At June 30, 2017 and 2016, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>2017</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ 150,417	\$ -
Difference between expected and actual experience	6,985	-
Change of assumptions	84,760	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,045	18,893
Division's contributions subsequent to the measurement date	89,834	-
Total	<u>\$ 333,041</u>	<u>\$ 18,893</u>

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	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 17,164	\$ -
Difference between expected and actual experience	11,899	-
Change of assumptions	144,381	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,742	-
Division's contributions subsequent to the measurement date	69,417	-
Total	\$ 244,603	\$ -

At June 30, 2017 and 2016, the Division reported \$89,834 and \$69,417, respectively, 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 following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows:

2018	\$ 82,804
2019	53,033
2020	55,062
2021	33,415
	\$ 224,314

**Actuarial Assumptions**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

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Mortality rates were based on the RP-200 Combined Mortality Table projected with Scale BB to 2013 for active members, RP-2000 Combined Mortality Table projected with Scale BB to 2013 for healthy retired members and beneficiaries and RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 for the period after disability retirement.

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 2008 through 2013, is outlined in a report dated December 5, 2015. Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer time frame. 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash equivalent	2%	-0.25%
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50% for the year ended June 30, 2016. 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

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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 7.50%. 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>
\$ 1,950,873	\$ 1,565,505	\$ 1,235,168

***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, 2017 and 2016, the Division reported a payable of \$12,049 and \$9,246, respectively, for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2017 and 2016, that were remitted in July 2017 and 2016, respectively.

**Note 8: Postemployment Health Care Plan**

***Plan Description***

The Division contributes to the nonhazardous, CERS, a cost-sharing multiple-employer defined benefit postretirement health care plan (insurance fund) administered by an agency of the Commonwealth of Kentucky. The plan provides medical insurance benefits to eligible retirees and their spouses. State law assigns the authority to establish and amend benefit provisions to the plan’s board of trustees, which is appointed by the Governor with the approval of the State



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Legislature. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by calling 502.564.4646.

***Funding Policy***

Benefit and contribution rates are established by state statute. Per KRS 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS board. Employees are required to contribute 5% of their annual pay. Employees with a participation date after September 1, 2008, are required to contribute an additional 1% of their annual pay for retiree health care benefits. The Division's contractually required contribution rate applied to pension (13.95% and 12.42%) and insurance (4.73% and 4.64%) for the years ended June 30, 2017 and 2016, was 18.68% and 17.06%, respectively, of annual payroll. Employer contributions are actuarially determined as an amount that, when combined with employee contributions, are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the years ended June 30, 2017 and 2016, contributions to the insurance fund from the Division were \$38,839 and \$36,934, respectively.

**Note 9: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***General Litigation***

The Division is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Division.

**Note 10: 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.

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Notes to Financial Statements  
June 30, 2017 and 2016**

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 11: Subsequent Events**

***Change in Required Pension Contributions***

On September 7, 2017, BGMU was informed that the pension rates for fiscal year 2019 will significantly increase from the previous year. The increase arises primarily from revised actuarial assumptions that the KRS Board believes are more in-line with current trends. Under the old assumptions, BGMU's CERS employer contribution rate was 19.18%. However, under the revised assumptions, the expected rate for the Division for fiscal year 2019 is going to be 28.86%.

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 10 Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Division's proportion of the net pension liability	0.0325%	0.0333%	0.0320%
Division's proportionate share of the net pension liability	<u>\$ 1,565,505</u>	<u>\$ 1,393,005</u>	<u>\$ 1,039,410</u>
Division's covered payroll	<u>\$ 770,645</u>	<u>\$ 749,009</u>	<u>\$ 785,750</u>
Division's proportionate share of the net pension liability as a percentage of its covered payroll	203.14%	185.98%	132.28%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

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

**Note to Schedule:** This schedule is based on the measurement of date of the  
collective net pension liability.

**General Services Division  
of Bowling Green Municipal Utilities  
A Component Unit of the City of Bowling Green, Kentucky  
Schedule of the Division's Contributions  
County Employees Retirement System of the State of Kentucky  
Last 10 Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 114,547	\$ 95,714	\$ 95,499
Contribution in relation to the contractually required contribution	<u>114,547</u>	<u>95,714</u>	<u>95,499</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Division's covered payroll	<u>\$ 821,123</u>	<u>\$ 770,645</u>	<u>\$749,009</u>
Contributions as a percentage of covered payroll	13.95%	12.42%	12.75%

**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 sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements and have issued our report thereon dated September 29, 2017, which contained an *Emphasis of Matter* paragraph regarding divisional reporting.

### **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. 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 29, 2017.

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

**BKD, LLP**

Bowling Green, Kentucky  
September 29, 2017