Water/Sewer 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, 2018

BKD
CPAs & Advisors

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
June 30, 2018

Contents

BKD
CPAs & Advisors

360 E. 8th Avenue, Suite 201 | P.O. Box 1196 | Bowling Green, KY 42102-1196
270.781.0111 | Fax 270.843.0359 | bkd.com

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 Water/Sewer 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, 2018, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of June 30, 2018, and the changes in 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 Matters**

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, 2018, 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.

As discussed in Notes 1 and 9 to the financial statements, in 2018 the Division implemented the provisions of Governmental Accounting Standards Board Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which implemented changes in accounting and financial reporting for other postemployment benefits. Our opinion is not modified with respect to this matter.

***Other* Matters**

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and postemployment benefits other than 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2018, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Division's 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, 2018

Water/Sewer 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, 2018

Our discussion and analysis of the Water/Sewer 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, 2018. Please read it in conjunction with the Independent Auditor's Report and the Division's financial statements, which are included. The 2017 data herein was not adjusted for the effect of Governmental Accounting Standards Board (GASB) 75 implementation.

Financial Highlights

- The Division's net utility plant increased by $1,632,793, or 1.19%.
- The Division's total assets and deferred outflows of resources increased by $5,979,603 or 3.76%.
- The Division's current liabilities decreased by $262,645, or 3.98%.
- The Division's noncurrent liabilities increased by $7,485,315, or 10.32%.
- The Division's net position increased by $1,711,940.

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 and cash equivalents 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.

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, 2018, are Sarah Glenn Grise (chairperson), Todd Davis (secretary), Steve Snodgrass, Donna Harmon 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 (director of human resources). 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 Utilities do share certain costs, such as customer billing, which are allocated by cost allocation analysis and other calculations as appropriate. Related-party transactions are disclosed in the notes to the financial statements.

At June 30, 2018, the Division had 19,235 water customers and 21,238 wastewater customers.

The Division has one wholesale customer, Warren County Water District (WCWD). Sales to WCWD are approximately 24% of total revenues in 2018. WCWD rates are analyzed and adjusted on a periodic basis, about every two years. They are based on gallons sold, expenses and debt costs.

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 developers, grants and loans and customer revenues. A small portion of revenues is based on billing-service revenues for city sanitation and recycling pickup.

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

Water/Sewer 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, 2018

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) 2017 to 2018	
	2018	**2017**	**$**	**%**
Current assets	$ 12,664	$ 10,410	$ 2,254	22%
Utility plant, net	139,231	137,598	1,633	1%
Restricted assets and investments	5,222	5,125	97	2%
Other assets	2,385	3,070	(685)	22%
Total assets	159,502	156,203	3,299	2%
Deferred outflows of resources	5,443	2,763	2,680	97%
Total assets and deferred outflows of resources	$ 164,945	$ 158,966	$ 5,979	4%
Long-term debt	$ 60,932	$ 61,018	$ (86)	0%
Long-term liabilities	19,077	11,505	7,572	66%
Current liabilities	6,332	6,595	(263)	4%
Total liabilities	86,341	79,118	7,223	9%
Deferred inflows of resources	694	135	559	414%
Net position				
Net investment in capital assets	73,897	72,242	1,655	2%
Restricted	5,222	5,125	97	2%
Unrestricted	(1,209)	2,346	(3,555)	152%
Total net position	77,910	79,713	(1,803)	2%
Total liabilities, deferred inflows of resources and net position	$ 164,945	$ 158,966	$ 5,979	4%

Water/Sewer 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, 2018

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

	June 30		Increase (Decrease) 2017 to 2018	
	2018	2017	$	%
Operating revenues				
Metered and unmetered sales	$ 25,116	$ 24,126	$ 990	4%
Other operating revenues	1,660	1,399	261	19%
Total operating revenues	26,776	25,525	1,251	5%
Other revenues	68	99	(31)	31%
Total revenues	26,844	25,624	1,220	5%
Operating and maintenance – water	4,870	4,610	260	6%
Operating and maintenance – sewer	4,692	4,423	269	6%
Administrative and billing	8,307	6,720	1,587	24%
Depreciation	5,513	5,442	71	1%
Interest and debt expense	1,109	1,146	(37)	3%
Other expense	2,315	-	2,315	100%
Total expenses	26,806	22,341	4,465	20%
Increase in net position	38	3,283	(3,245)	99%
Beginning net position, as previously reported	79,713	76,152	3,561	5%
Cumulative effect of change in accounting principle	(3,514)	-	(3,514)	0%
Beginning net position, as restated	76,199	76,152	47	0%
Capital contributions	1,673	278	1,395	502%
Ending net position	$ 77,910	$ 79,713	$ (1,803)	2%

Comments Regarding Variances

Balance Sheets

Current assets are $2,254,147, or 21.65%, more in 2018 than in 2017. The current year increase relates primarily to an increase in cash and cash equivalents.

Current liabilities are $262,645, or 3.98%, less in 2018 than in 2017. The current year increase pertains in large part to a decrease in accounts payable.

Statements of Revenues, Expenses and Changes in Net Position

The majority of the Division's revenues result from metered and unmetered sales (93.80% of total operating revenues in 2018). The other four categories are industrial sewer surcharge, miscellaneous service revenues, penalties and nonutility revenues, including tower rental and billing-services revenue. Metered and unmetered sales are $990,091, or 4.10%, more in 2018 than in 2017. The increase can be partially attributed to the increase in rates as of July 1, 2017.

Growth in number of customers has been slow in prior years and remained so in 2018, increasing by 439 customers, or 1.09%, in 2018 (from 19,050 water customers and 20,984 wastewater customers in 2017 to 19,235 water customers and 21,238 wastewater customers in 2018). Sales may fluctuate significantly as the utility industry is "weather-driven".

Operating expenses were 87.32% of operating revenues in 2018. The utility industry is "system-driven", meaning classification of labor and material expenses is driven by the types of system conditions each year, *e.g*., main-line breaks due to freezing temperatures as opposed to new line construction; pump repairs as opposed to ordinary maintenance. Major variances between years can and do occur. This year major differences are:

- Labor and other employment costs make up the largest single expense category for the Division. Labor costs before benefits are more than $12,000,000 for the Utilities. Other labor costs include payroll tax for social security taxes (reduced by state retirement fund), state retirement (CERS), health, dental, disability and life insurance and various company functions. Salary and hourly costs increased by approximately 4.1% in 2018 for merit and other necessary increases.
- An expansion at the Wastewater Treatment Plant was completed in May 2014. Part of that expansion included the building of a dryer system totaling $2,939,549. The dryer had design issues as well as maintenance requirements and costs greater than expected. The designer and product builder did not support the maintenance and operational challenges. The BGMU Board of directors analyzed options and made the decision to sell the dryer rather than invest more monies into the project. The loss recognized in this fiscal year totaled $2,329,855. This was cost less depreciation of $367,444, a settlement from the designer/builder of $150,000 and sale price of $92,250.

Statements of Cash Flows

- Cash flows from operating activities for the current year totaled $10,530,594. This is a decrease of $422,581 or 3.86%.

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year, the Division's investment in capital amounted to $139,230,758, which is stated net of $88,887,378 of accumulated depreciation. This investment in capital includes:

- Water plant and system
- Sewer plant and system
- Equipment
- Trucks and autos
- Office equipment and additions
- Land

During 2018, the net increase in the Division's investment in capital assets was $1,632,793. Major capital assets events during 2018 include the following:

- Increase to water plant and system of approximately $2,491,000
- Decrease to sewer plant and system of approximately $2,257,000
- Net increase to construction in progress of approximately $6,490,000

During 2018, the Division disposed of an asset at the wastewater treatment facility that amounted to $2,572,105, net of $428,404 accumulated depreciation.

Utility Plant, Net of Accumulated Deprecation
(Dollars in Thousands)

	June 30	
	2018	2017
Water treatment plant and system	$ 94,721	$ 92,230
Wastewater treatment plant and system	112,825	115,083
Land	2,669	2,642
Equipment	3,796	3,774
Trucks and autos	2,296	2,284
Office equipment	1,579	1,502
Office additions	66	66
Total plant in service	217,952	217,581
Accumulated depreciation	88,887	83,659
	129,065	133,922
Construction in progress	10,166	3,676
Net utility plant	$ 139,231	$ 137,598

Long-Term Debt and Debt Administration

At the end of the fiscal year, the Division had $65,334,150 in long-term debt outstanding, which was down $21,570 over the prior year's $65,355,720.

The Division has ten outstanding KIA loans (final payments due in December 2022, December 2027, June 2028, December 2030, December 2032, June 2033 and November 2036). Revenue bonds were issued in the 2012 fiscal year for the construction of a new general office building. Funds were issued in December 2011 and January 2012 totaling $11,035,000. That final payment is due in December 2031. The Division did a bond refunding of a portion of the 2004 bonds during the 2014 fiscal year. The refunding involved a new 2013 issuance of $5,460,000. The 2013 bond final payment is due December 2024.

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.

A summary of the long-term debt transactions for the year ended June 30, 2018, and more details regarding the outstanding debt can be found in Note 6.

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:

- A rate study that analyzed projected future annual operating and maintenance expenses, necessary capital expenditures and debt requirements was performed during fiscal year 2015. The results of the study were used to recommend a rate action sufficient to recover those needs. This rate increase was approved by the Board and became effective February 1, 2015. This rate action provided systematic increases over a seven year period. Rates for BGMU customers (excluding those to WCWD) are approved by the City Commission. WCWD water rates were recalculated in fiscal year 2012 to incorporate the new water treatment plant expansion costs, with WCWD assuming a majority of the expansion-debt cost through the rate structure. Those rates went into effect as of September 2011. WCWD sewer rates were recalculated in fiscal year 2013 to incorporate the new waste-water treatment plant expansion costs and related debt service requirements. Those rates went into effect as of December 2012. Overall WCWD rates are analyzed and updated periodically. An analysis was done in fiscal year 2016. Those rates were implemented in fiscal year 2017. The rates provided by the Division to WCWD are regulated by the Commonwealth of Kentucky's Public Service Commission.

  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 benefits. Trustees of the Kentucky Retirement Systems, which manages, among others, the pension plans of the County Employee Retirement System (CERS) which BGMU participates in, adopted new long-term investment return assumptions in 2017. The assumptions were decreased from an average annual expected investment return of 7.50% on plan assets, to 6.25%. The effect of the change in investment return assumptions is to increase the rate of employer contributions by approximately 10%, or approximately 50% over current employer CERS non-hazardous rates of 19.18%. Other changes in plan design adopted by the Kentucky General Assembly and signed into law by the Governor in 2018 will also have an impact on future employer contribution rates. To phase-in the impact of the increases in CERS employer contribution rates, House Bill 362 capped the annual increase in rates to 12% annually. Accordingly, BGMU's employer contribution rate will be 21.48% beginning July 1, 2018. The employee contribution remains 5.00%.

- Significant capital projects anticipated in the next fiscal year include:

WTP expansion design	$7,863,323
Water meter replacements	$1,250,000
Alternate disinfection design and construction	$2,265,109
Wastewater line rehab projects	$350,000
Water tank coating system projects	$500,000
Vehicles and equipment	$293,000

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.

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Balance Sheet
June 30, 2018

Assets and Deferred Outflows of Resources

Current Assets	
Cash and cash equivalents	$ 9,376,619
Accounts receivable – customers, net of allowance of $7,500	1,644,733
Accounts receivable – others	201,556
Accounts receivable – Electric Division	385,203
Accounts receivable – General Services Division	4,450
Current portion of long-term receivable – General Services Division	600,000
Inventories	221,617
Prepaid expenses	230,127
Total current assets	12,664,305
Noncurrent Cash and Investments	
Restricted cash	2,665,246
Restricted investments	2,557,017
	5,222,263
Utility Plant	
Utility plant in service, at cost	217,952,039
Construction in progress	10,166,097
	228,118,136
Accumulated depreciation	(88,887,378)
Total utility plant, net	139,230,758
Other Assets	
Long-term receivable – General Services Division	2,250,000
Long-term receivable – other	131,250
Other	3,750
	2,385,000
Total assets	159,502,326
Deferred Outflows of Resources	5,443,430
Total assets and deferred outflows of resources	$ 164,945,756

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Balance Sheet
June 30, 2018

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities	
Current portion of long-term debt	$ 4,401,742
Accounts payable	1,318,516
Accounts payable – Electric Division	117,515
Accrued interest payable	102,596
Accrued compensated absences	259,040
Customer deposits	100
Other current liabilities	132,531
Total current liabilities	6,332,040
Noncurrent Liabilities	
Net pension liability	14,004,524
Net other postemployment benefits liability	4,875,406
Long-term debt, net of unamortized discount of $150,954	60,932,408
Accrued compensated absences	196,691
Total noncurrent liabilities	80,009,029
Total liabilities	86,341,069
Deferred Inflows of Resources	694,264
Net Position (Deficit)	
Net investment in capital assets	73,896,608
Restricted for debt service	5,222,263
Unrestricted	(1,208,448)
Total net position	77,910,423
Total liabilities, deferred inflows of resources and net position	$ 164,945,756

Water/Sewer 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, 2018

Operating Revenues	
Metered and unmetered sales	$ 25,115,606
Industrial sewer surcharges	665,392
Miscellaneous service revenues	182,580
Penalties – delinquent accounts	127,554
Nonutility revenues	685,112
Total operating revenues	26,776,244
Operating Expenses	
Purification	2,792,417
Distribution	1,580,788
Engineering	1,083,543
Customer's accounting and collections	1,139,615
Sewer plant and disposal	4,221,543
Administrative and general	6,995,561
Uncollectible accounts	54,999
Depreciation, excluding vehicles	5,513,325
Total operating expenses	23,381,791
Operating Income	3,394,453
Nonoperating Revenues (Expenses)	
Interest income	67,693
Loss on dispositions of utility plant	(2,315,305)
Interest expense	(1,108,933)
Net nonoperating expenses	(3,356,545)
Increase in Position, Before Capital Contributions	37,908
Capital Contributions	1,674,032
Increase in Net Position	1,711,940
Net Position, Beginning of Year, as Previously Reported	79,712,723
Cumulative Effect of Change in Accounting Principle (Note 1)	(3,514,240)
Net Position, Beginning of Year, as Restated	76,198,483
Net Position, End of Year	$ 77,910,423

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statement of Cash Flows
Year Ended June 30, 2018

Operating Activities	
Cash received from customers	$ 26,725,510
Cash paid to suppliers and employees	(16,194,916)
Net cash provided by operating activities	10,530,594
Capital and Related Financing Activities	
Proceeds from capital contributions	927,632
Principal payments on long-term debt	(7,618,066)
Proceeds from borrowings on long-term debt	7,581,850
Proceeds on sale of capital assets	106,800
Interest paid on long-term debt	(1,077,377)
Acquisition and construction of utility plant assets	(9,081,108)
Net cash used in capital and related financing activities activities	(9,160,269)
Investing Activities	
Sales and redemptions of investments	32,228,986
Purchases of investments	(32,317,559)
Collection of note receivable	43,750
Collections of General Services Division note receivable	600,000
Investment income	67,693
Net cash provided by investing activities	622,870
Increase in Cash and Cash Equivalents	1,993,195
Cash and Cash Equivalents, Beginning of Year	10,048,670
Cash and Cash Equivalents, End of Year	$ 12,041,865
Reconciliation of Cash and Cash Equivalents to the Balance Sheet	
Cash and cash equivalents	$ 9,376,619
Restricted cash	2,665,246
Total cash and cash equivalents	$ 12,041,865

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statement of Cash Flows
Year Ended June 30, 2018

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	$ 3,394,453
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	5,656,980
Changes in operating assets and liabilities	
Accounts receivable	(70,210)
Inventories	(14,106)
Prepaid expenses	(35,138)
Other assets	41,559
Deferred outflows of resources – pension	(1,373,555)
Deferred outflows of resources – other postemployment benefits and other	(278,106)
Deferred outflows of resources - debt refunding	31,622
Accounts payable and accrued liabilities	(372,055)
Net pension liability	2,689,609
Net other postemployment benefits liability	555,571
Deferred inflows of resources - pension	303,970
Net cash provided by operating activities	$ 10,530,594
Noncash Investing, Capital and Financing Activities	
Utility plant and construction in progress in accounts payable	$ 595,031
Capital assets in accounts receivable	$ 150,000
Contributed plant	$ 746,400

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

Nature of Operations

The Water/Sewer Division (Division) of Bowling Green Municipal Utilities (BGMU) owns and operates the water treatment and distribution system (Water System) and the wastewater collection and treatment system (Sewer System) in the City of Bowling Green, Kentucky (City). The Water System provides potable water to the citizens of the City and also is the primary source of potable water for Warren County, Kentucky via the Warren County Water District (WCWD). The Sewer System collects and treats wastewater for the citizens of the City and also collects and treats wastewater for the WCWD.

The rates and services provided by the Division to its largest customer, WCWD, are regulated by the Commonwealth of Kentucky's Public Service Commission.

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, the Electric Division (ED) and General Services Division (GSD) (hereinafter collectively referred to as the Utilities). These 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.

These Division-only financial statements are prepared for the purpose of meeting bond financing and regulatory requirements.

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:

- The Division may not issue debt without the approval of the City Commission.
- Water and sewer rates must be approved by the City Commission.
- 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.

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 assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Division considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018, cash equivalents consisted of a money market account with a broker.

Investments and Investment Income

The Division maintains various designated and restricted accounts (see Note 2) that are held for debt service obligations and other items. Investments in money market mutual funds are carried at cost, which approximates fair value. Investments in U.S. treasury securities and U.S. agency obligations are carried at fair value. Fair value is determined based on quoted market prices or yields currently available on comparable securities of issuers with similar credit ratings.

Investment income consists of interest and dividend income and the net change for the year in fair value of investments.

Accounts Receivable

Accounts receivable has been 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 cycle billings rendered daily. 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.

Amortization of Bond Discount

Bond discount costs arising from bond issues are amortized using the effective interest method over the life of the issue.

Inventories

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

Compensated Absences

The Division policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments, such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date is included in other noncurrent liabilities.

Utility Plant

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

The Division capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. There was no interest capitalized during the years ended June 30, 2018.

Depreciation

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

Treatment plant	40 years
Distribution and collector system	40 years
Equipment	7 years
Vehicles	5 years
Office equipment	5 years

Cost-Sharing Defined Benefit Pension Plan

The Division participates in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan (Plan). CERS is administered by the Kentucky Retirement System, a component of the Commonwealth of Kentucky. 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.

Cost-Sharing Defined Benefit Other Postemployment Benefit Plan

The Division participates in CERS, a cost-sharing multiple-employer defined benefit other postemployment benefit plan (OPEB Plan). CERS is administered by the Kentucky Retirement System, a component of the Commonwealth of Kentucky. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

The Division reports the consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its balance sheet. Deferred outflows of resources are comprised of losses on debt refundings, pension and OPEB items.

Deferred Inflows of Resources

The Division reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheet. Deferred inflows of resources are comprised of pension and OPEB items.

Net Position

Net position is classified in three 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. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Division, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Capital Contributions

Contributions are recognized in the statements of revenues, expenses and changes in net position when earned. Contributions include capacity fees, developer contributed utility systems, capital grants and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.

Operating Revenues

The Division recognizes metered sales revenue based on cycle billings, whereby customers are billed at various dates throughout the month for water and sewer service through metering dates. Metering for the Division's largest customer, WCWD, is performed and billed at the end of each month. The Division does not accrue for unbilled revenues for water and sewer services furnished to its remaining customers from the metering dates to the end of each accounting period, a practice permitted by generally accepted accounting principles.

Income Taxes

As an instrumentality of the Commonwealth of Kentucky, BGMU is exempt from federal and state income taxes. Accordingly, the financial statements of the Division include no provision for such taxes.

Implementation of New Accounting Principle

In 2018, the Division implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement improves the accounting and financial reporting by state and local governments for other postemployment benefits. This Statement establishes standards for measuring and recognizing assets and liabilities, deferred outflows and deferred inflows of resources and expenses. Note disclosures and required supplementary information about other postemployment benefits are also addressed.

The provisions of this Statement were retroactively applied, and accordingly, the Division's net position as of July 1, 2017, was reduced by $3,514,240.

Revision

A revision has been made to the 2018 financial statements. This revision had no effect on total assets and deferred outflows of resources, total net position or the increase in net position.

Within the 2018 financial statements, the cash and cash equivalents, beginning of year as shown on the statement of cash flows was revised to $10,048,670 to include restricted cash of $2,656,744. The cash and cash equivalents previously shown on the 2017 statement of cash flows was $7,391,926. The effect of the change was to increase the balance of cash and cash equivalents as of the beginning of the year in the statement of cash flows by $2,656,744.

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 deposit 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, 2018, the Division's deposits covered by federal deposit insurance or by collateral held by the bank's agent in the Division's name had a carrying amount of $3,975,684 and a bank balance of $4,284,555. At June 30, 2018, the Division also had uncollateralized deposits with both carrying amounts and bank balances of $8,066,181 at a bank rated by Standard & Poor's (S&P) and by Moody's Investors Services (Moody's) as A, as permitted by state law.

Investments

The Division may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, 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).

At June 30, 2018, the Division had the following investments and maturities:

		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1 – 5**	**6 – 10**	**More than 10**
U.S. Treasury obligations	$ 589,492	$ 589,492	$ -	$ -	$ -
Money market account	7,368,411	7,368,411	-	-	-
	$ 7,957,903	$ 7,957,903	$ -	$ -	$ -

Interest Rate Risk – Interest rate risk is the risk of fair value losses arising from rising interest rates. The U.S. Treasury mutual fund is presented as an investment with a maturity of less than one year because it is redeemable in full immediately. The Division does not have a formal policy to limit its interest rate risk.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2018, the Division's investments in U.S. agencies obligations not directly guaranteed by the U.S. Government were rated by S&P and by Moody's as A.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2018, the Division was not exposed to custodial credit risk.

Concentration of Credit Risk – The Division places no limit on the amount that may be invested in any one issuer. At June 30, 2018, the Division's investments in U.S. Treasury Note obligations constituted 7% of its total investments.

Summary of Carrying Values

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

Carrying value	
Deposits	$ 6,640,979
Investments	7,957,903
	$ 14,598,882
Included in the following balance sheet captions	
Cash and cash equivalents	$ 9,376,619
Noncurrent cash and investments	5,222,263
	$ 14,598,882

Investment Income

Investment income for the year ended consisted of:

Interest income – investments	$ 67,693

Note 3: Utility Plant

Utility plant activity for the year ended June 30, 2018, was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Water plant	$ 92,230,361	$ 765,493	$ -	$ 1,725,535	$ 94,721,389
Sewer plant	115,082,573	297,869	(2,939,549)	384,252	112,825,145
Equipment	3,773,984	42,150	(55,560)	35,225	3,795,799
Trucks and autos	2,284,461	17,049	(5,400)	-	2,296,110
Office equipment	1,502,029	47,945	-	28,885	1,578,859
Office additions	65,716	-	-	-	65,716
Land	2,641,496	-	-	27,525	2,669,021
Utility plant in service	217,580,620	1,170,506	(3,000,509)	2,201,422	217,952,039
Construction in progress	3,676,147	8,691,372	-	(2,201,422)	10,166,097
Total utility plant	221,256,767	9,861,878	(3,000,509)	-	228,118,136
Accumulated depreciation	(83,658,802)	(5,656,980)	428,404	-	(88,887,378)
Utility plant, net	$ 137,597,965	$ 4,204,898	$ (2,572,105)	$ -	$ 139,230,758

The Division allocates depreciation for vehicles to transportation expense. The amount of depreciation charged to transportation expense was $143,655 for year ended June 30, 2018.

During 2018, the Division disposed of an impaired asset at the wastewater treatment facility amounted to $2,572,105, net of $367,444 accumulated depreciation.

Note 4: Deferred Outflows of Resources

As of June 30, 2018, the deferred outflows of resources consisted of $3,930,550 related to pensions (see Note 8), $1,338,964 related to other postemployment benefits liability (see Note 9) and $173,916 related to debt refunding. The amount related to debt refunding will be recognized in interest expense using the straight-line method over the next six years.

Note 5: Deferred Inflows of Resources

As of June 30, 2018, the deferred inflows of resources consisted of $439,001 related to pensions (see Note 8), $255,263 related to other postemployment benefits liability (see Note 9).

Note 6: Long-Term Liabilities

The following is a summary of long-term debt transactions for the Division for the year ended June 30, 2018:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue Bonds					
Series 2011/2012	$ 8,680,000	$ -	$ 485,000	$ 8,195,000	$ 495,000
Series 2013	4,780,000	-	560,000	4,220,000	565,000
KIA Assistance Agreement, 2000	1,078,021	-	1,078,021	-	-
KIA Assistance Agreement, 2003	2,381,432	-	2,381,432	-	-
KIA Assistance Agreement, 2007	2,947,684	-	254,807	2,692,877	257,365
KIA Assistance Agreement, 2008	42,708,338	-	2,560,604	40,147,734	2,586,274
KIA Assistance Agreement, 2009	46,397	-	3,025	43,372	3,087
KIA Assistance Agreement, 2012	885,532	-	47,472	838,060	48,425
KIA Assistance Agreement, 2016	1,164,915	-	44,895	1,120,020	46,262
KIA Assistance Agreement, 2017	843,197	1,059,010	-	1,902,207	-
KIA Assistance Agreement, 2017	-	2,006,352	-	2,006,352	-
KIA Assistance Agreement, 2018	-	988,979	94,529	894,450	191,903
KIA Assistance Agreement, 2018	-	2,284,113	102,477	2,181,636	208,426
KIA Assistance Agreement, 2018	-	1,243,396	-	1,243,396	-
Pension-related debt to ED	5,804	-	5,804	-	-
	65,521,320	7,581,850	7,618,066	65,485,104	4,401,742
Less unamortized bond discount	165,600	-	14,646	150,954	-
Total long-term debt obligations	$ 65,355,720	$ 7,581,850	$ 7,603,420	$ 65,334,150	$ 4,401,742

Revenue Bonds Payable – Series 2011/2012

The Series 2011/2012 revenue bonds payable, which are held by the public, consist of Water and Sewer Revenue Bonds in the original amount of $11,035,000 dated December 6, 2011, which bear interest at 0.60% to 3.25%. The Bonds are payable in annual installments through December 1, 2031. The Division is required to make monthly deposits in a sinking fund for the redemption of the bonds and payment of bond interest, to maintain an appropriate balance for a debt service fund, depreciation fund and reserve fund. The bonds maturing on or after December 1, 2031, are subject to redemption prior to maturity, at the option of the Division, on any date on or after April 1, 2016, in whole or in part, in inverse order of maturities and by lot within a single maturity, at a redemption price of 100% of the principal amount of the Series 2011/2012 bonds called for redemption, plus accrued interest to the date of redemption. The bonds are secured by the net revenues of the Division and the assets restricted under the bond indenture agreement.

The 2011 bonds maturing on December 1, 2021, are subject to mandatory redemption on December 1 in the years and amounts as follows, at a price of 100% of the principal amount of the bonds being redeemed, plus accrued interest to the date of redemption.

Year	Principal Amount
2019	$ 345,000
2020	$ 355,000
2021	$ 360,000

The 2012 bonds maturing on December 1, 2027, are subject to mandatory redemption on December 1 in the years and amounts as follows, at a price of 100% of the principal amount of the bonds being redeemed, plus accrued interest to the date of redemption.

Year	Principal Amount
2026	$ 175,000
2027	$ 180,000
2028	$ 185,000
2029	$ 195,000
2030	$ 200,000
2031	$ 205,000
2032	$ 215,000

Revenue Bonds Payable – Series 2013

The Series 2013 refunding revenue bonds payable, which are held by the public, consist of Water and Sewer Revenue Bonds in the original amount of $5,460,000 dated December 19, 2013, which bear interest at 0.40% to 3.00%. The bonds are payable in annual installments through December 1, 2024. The Division is required to make monthly deposits in a sinking fund for the redemption of the bonds and payment of bond interest, to maintain an appropriate balance for a debt service fund, depreciation fund and reserve fund. The bonds are secured by the net revenues of the Division and the assets restricted under the bond indenture agreement.

KIA Assistance Agreement, 2000

KIA Assistance Agreement (Fund F), dated August 1, 2000, in the amount of $3,049,314; funding for water treatment plant renovation, upgrade and water transmission system improvements. The loan was to be repaid in 20 years with final payment due December 1, 2022, payable semi-annually on June 1 and December 1, including interest at 3.80%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division was required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs. This agreement was refinanced during the year ended June 30, 2018, and paid in full with the proceeds of with KIA Assistance Agreement (Fund C), dated January 1, 2018, of $988,979.

KIA Assistance Agreement, 2003

KIA Assistance Agreement (Fund F), dated May 1, 2003, in the amount of $3,980,000; funding for water treatment plant renovation, upgrade and water transmission system improvements. The loan was to be repaid in 20 years with final payment due December 1, 2027, payable semi-annually on June 1 and December 1, including interest at 3.00%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division was required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs. This agreement was refinanced during the year ended June 30, 2018, and paid in full with the proceeds of KIA Assistance Agreement (Fund C), dated January 1, 2018, of $2,284,113.

KIA Assistance Agreement, 2007

KIA Assistance Agreement (Fund A), dated March 1, 2007, in the amount of $5,130,000; funding for sewer line extensions and water transmission system improvements. The loan is to be repaid in 20 years with final payment due June 1, 2028, payable semi-annually on June 1 and December 1, including interest at 1.00%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division is required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs.

KIA Assistance Agreement, 2008

KIA Assistance Agreement (Fund A), dated December 1, 2008, KIA loan not to exceed $53,881,569; funding for a waste water treatment facility. The loan is to be repaid in 20 years with final payment due December 1, 2032, payable semi-annually on June 1 and December 1, including interest at 1.00%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division is required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs.

KIA Assistance Agreement, 2009

KIA Assistance Agreement (Fund A), dated December 1, 2009, in the amount of $64,665; funding for mobile generators. The loan is to be repaid in 20 years with final payment due December 1, 2030, payable semi-annually on June 1 and December 1, including interest at 2.00%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division is required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs.

KIA Assistance Agreement, 2012

KIA Assistance Agreement (Fund F), dated September 1, 2012, in the amount of $1,298,680; funding for the replacement of water lines. The loan is to be repaid in 20 years with final payment due June 1, 2033, payable semi-annually on June 1 and December 1, including interest at 2.00%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division is required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs.

KIA Assistance Agreement, 2016

KIA Assistance Agreement (Fund C), dated January 1, 2015, in the amount of $1,599,511; funding for a piping renovation project. The loan is to be repaid in 20 years with final payment due November 1, 2036, payable monthly, including interest at 3.00%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division is required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs.

KIA Assistance Agreement, 2017

KIA Assistance Agreement (Fund B), dated January 1, 2017, in the amount of $2,000,000; funding for the replacing of bulk chlorine gas disinfection system with a mixed oxidant system. The loan is to be repaid in 20 years from the date of the last draw of funds, payable monthly, including interest at 1.75%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division is required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs. At June 30, 2018, the Division had not made the final draw on the funds.

KIA Assistance Agreement, 2017

KIA Assistance Agreement (Fund C), dated January 1, 2017, in the amount of $4,800,000; funding for the replacing of bulk chlorine gas disinfection system with a mixed oxidant system. The loan is to be repaid in 20 years from the date of the last draw of funds, payable monthly, including interest at 1.75%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division is required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs. At June 30, 2018, the Division had not made the final draw on the funds.

KIA Assistance Agreement, 2018

KIA Assistance Agreement (Fund C), dated January 1, 2018, in the amount of $988,979 refinanced the KIA Assistance Agreement (Fund F), dated August 1, 2000; funding for water treatment plant renovation, upgrade and water transmission system improvements. The loan is to be repaid in 20 years from original loan maturity date with final payment due December 1, 2022, payable semi-annually on June 1 and December 1, including interest at 2.00%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division was required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs.

KIA Assistance Agreement, 2018

KIA Assistance Agreement (Fund C), dated January 1, 2018, in the amount of $2,284,113 refinanced the KIA Assistance Agreement (Fund F), dated May 1, 2003; funding for water treatment plant renovation, upgrade and water transmission system improvements. The loan is to be repaid in 20 years from original loan maturity date with final payment due December 1, 2027, payable semi-annually on June 1 and December 1, including interest at 2.25%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division was required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs.

KIA Assistance Agreement, 2018

KIA Assistance Agreement (Fund C), dated September 1, 2017, in the amount of $3,800,000; funding for the engineering portion of a large water treatment plant expansion project. The loan is to be repaid in 20 years from the date of the last draw of funds, payable monthly, including interest at 3.00%; secured by gross revenues of the Division and the assets restricted under the bond indenture agreement. The Division is required to make annual deposits in a maintenance and replacement reserve fund for extraordinary maintenance expenses or unbudgeted costs. At June 30, 2018, the Division had not made the final draw on the funds.

Pension-Related Debt

On October 1, 1997, the ED of BGMU issued revenue refunding bonds to currently refund outstanding ED bonds and to refinance $1,151,800 of outstanding pension-related debt to the CERS. The portion of the CERS pension-related debt attributable to the Division has been recorded in these financial statements using the same repayment terms as the revenue refunding bonds with a corresponding amount included in the ED's financial statements as a long-term receivable. This was repaid during the year ended June 30, 2018.

The debt service requirements as of June 30, 2018, are as follows:

Year Ended June 30	Interest	Principal	Total
2019	$ 850,985	$ 4,401,742	$ 5,252,727
2020	790,815	4,466,262	5,257,077
2021	727,996	4,521,318	5,249,314
2022	662,975	4,591,917	5,254,892
2023	594,499	4,553,651	5,148,150
2024–2028	1,978,547	21,120,953	23,099,500
2029–2033	587,363	16,420,325	17,007,688
2034-2036	13,715	5,408,936	5,422,651
	$ 6,206,895	$ 65,485,104	$ 71,691,999

During the year ended June 30, 2018, additions to long-term compensated absences for the Division totaled $54,132, while deductions totaled $60,261.

Note 7: Related-Party Transactions

BGMU is composed of three Utilities. Shared office facilities are owned by the Division and charged monthly to the ED and GSD. In addition, joint purchases and other routine services are performed by or for the Division. Outstanding receivables or payables between Utilities of BGMU are generally satisfied on a monthly basis or specific terms.

Balances		
Current note receivable from GSD	$	600,000
Long-term note receivable from GSD	$	2,250,000
Current receivable from GSD	$	4,450
Current receivable from ED	$	385,203
Current payable to ED	$	(117,515)
Transactions		
Rent income from ED	$	372,000
Rent income from GSD	$	20,160
Utility purchases from ED	$	1,593,355
Utility purchases from GSD	$	58,409
Rent income from ED (for computer and radio usage)	$	44,592

Note 8: Pension Plan

Plan Description

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

Benefits Provided

Nonhazardous	Tier 1 Participation Prior to September 1, 2008	Tier 2 Participation September 1, 2008, Through December 31, 2013	Tier 3 Participation on or After January 1, 2014
Benefit Formula	Final Compensation X Benefit Factor X Years of Service.		Cash balance plan.
Final Compensation	Average of the highest five fiscal years (must contain at least 48 months). Includes a 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.
Benefit Factor	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.
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit	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.	
Reduced Retirement Benefit	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 (14.48%) and healthcare benefits (4.70%) for the year ended June 30, 2018, was 19.18% 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 year ended June 30, 2018, contributions to the pension plan from the Division were $856,804.

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

At June 30, 2018, the Division reported a liability of $14,004,524 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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 BGMU's actual total employer contributions for the year ended June 30, 2017, compared to actual total employer contributions for all employers for the same period. At June 30, 2018, BGMU's proportion was 0.507144% compared to the June 30, 2017, proportion of 0.488670%. 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. The Division's proportion was 47.82% at June 30, 2018, and 47.53% at June 30, 2017.

For the year ended June 30, 2018, the Division recognized pension expense of $2,476,828. At June 30, 2018, 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	$ 169,019	$ -
Difference between expected and actual experience	17,302	360,336
Change of assumptions	2,615,707	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	276,714	78,665
Division’s contributions subsequent to the measurement date	851,808	-
Total	$ 3,930,550	$ 439,001

At June 30, 2018, the Division reported $851,808 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, 2018, related to pensions will be recognized in pension expense as follows:

2019	$ 1,140,865
2020	1,159,905
2021	531,041
2022	(192,070)
	$ 2,639,741

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.05% average, including inflation
Investment rate of return	6.25% net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four years for males) is used for the period after disability retirement. There is some margin in the current mortality table for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent actuarial experience study was for the period July 1, 2008, through June 30, 2013. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below. The KRS Board of Trustees plans to have the next experience study conducted using the plan's experience for the five-year period ended June 30, 2018. The actuarial assumptions that result from that experience study will be first used to prepare the June 30, 2019, valuation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
U.S. equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash equivalent	2.00%	1.88%
Total	100.00%	

*Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan.

Discount Rate

The discount rate used to measure the total pension liability was 6.25% for the year ended June 30, 2017. The projection of cash flows used to determine the discount rate assumed that participating employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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 6.25%. 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.

1% Decrease	Current Discount Rate	1% Increase
$ 17,662,732	$ 14,004,524	$ 10,944,461

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, 2018, the Division reported a payable of $77,848 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

Note 9: Other Postemployment Benefit Plan

Plan Description

The Division contributes to the non-hazardous CERS, a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan covering substantially all employees. CERS is administered by the Kentucky Retirement System (KRS), a component of the Commonwealth of Kentucky. The OPEB Plan is administered by a board of trustees appointed by the Governor and KRS. Benefit provisions are contained in the Plan Document and were established and can be amended by state law. The OPEB plan issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

Nonhazardous	Tier 1 Participation Prior to September 1, 2008	Tier 2 Participation September 1, 2008, Through December 31, 2013	Tier 3 Participation on or After January 1, 2014
Eligibility	Participation before July 2003: Based on years of service and typer of service KRS pays a percentage of the monthly contribution rate Participation after July 2003: 10 years of earned service at retirement to be eligible for insurance benefits. Benedit of $10 per month for each year of earned service without regard to a maximum dollar amount; adjusted annually.	15 years for eligibility.	
Benefit Factor	Participation before July 2003: KRS pays a percentage of the monthly contribution rate Participation after July 2003: $10 per month for each year of earned service without regard to a maximum dollar amount.	$10 per month for each year of earned service without regard to a maximum dollar amount.	
Cost of Living Adjustment (COLA)	Adjusted annually	Monthly contributions is increased by 1.5% each July 1.	

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 (14.48%) and healthcare benefits (4.70%) for the year ended June 30, 2018, was 19.18% 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 year ended June 30, 2018, contributions to the OPEB plan from the Division were $278,106.

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Division reported a liability of $4,875,406 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of the date. BGMU's proportion of the net OPEB liability was based on BGMU's actual total employer contributions for the year ended June 30, 2017, compared to actual total employer contributions for all employers for the same period. At June 30, 2018, BGMU's proportion was 0.507144% which was unchanged from the prior year. The Division's proportion of BGMU's net OPEB liability was based on the Division's share of contributions relative to the contributions of all three divisions of BGMU. The Division's proportion was 47.82% at June 30, 2018, and 47.53% at June 30, 2017.

For the year ended June 30, 2018, the Division recognized OPEB expense of $555,571. At June 30, 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 230,409
Difference between expected and actual experience	-	13,541
Change of assumptions	1,060,858	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	11,313
Division's contributions subsequent to the measurement date	278,106	-
Total	$ 1,338,964	$ 255,263

At June 30, 2018, the Division reported $278,106 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2018, related to OPEB will be recognized in OPEB expense as follow

2019	$	138,611
2020		138,611
2021		138,611
2022		138,611
2023		196,213
Thereafter		54,938
	$	805,595

Actuarial Assumptions

The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary Increases	3.05%, average, including inflation
Health care cost trend rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11years.
Investment Rate of Return	6.25%
Mortality	RP-2000 Combined Mortality Table, projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality table for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
US equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash equivalent	2.00%	1.88%
Total	100.00%	

*Long-term expected real rates of return may vary by plans depending on the risk tolerance of the plan.

Discount Rate

The discount rate used to measure the total OPEB liability was 5.84% for the year ended June 30, 2017. The projection of cash flows used to determine the discount rate assumed that participating employer contributions will be made at the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actual accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

BGMU's proportionate share of the net OPEB liability has been calculated using a discount rate of 5.84%. The following presents the Division's proportionate share of the allocated net OPEB liability calculated using a discount rate 1% higher and 1% lower than the current rate.

1% Decrease	Current Discount Rate	1% Increase
$ 6,203,684	$ 4,875,406	$ 3,770,070

Sensitivity of the Division's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

BGMU's proportionate share of the net OPEB liability has been calculated using an initial pre-65 health care trend rate of 7.25%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The post-65 health care trend rate starts at 5.10%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. The following presents the Division's proportionate share of the allocated net OPEB liability calculated using health care cost trend rates 1% higher and 1% lower than the current rates.

1% Decrease	Current Health Care Cost Trend Rates	1% Increase
$ 3,739,687	$ 4,875,406	$ 6,351,774

OPEB Plan Fiduciary Net Position

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

Payable to the OPEB Plan

At June 30, 2018, the Division reported a payable of $25,268 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

Note 10: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Money market mutual funds are carried at cost, and thus are not included within the fair value hierarchy.

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury obligations	$ 589,492	$ -	$ 589,492	$ -

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 11: 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 financial position, results of operations and cash flows of the Division.

Note 12: 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 three preceding years.

Note 13: Segment Information

Available segment information for the Division for the years ended June 30, 2018, follows:

	Water	Sewer	Total
Operating revenues	$ 13,197,593	$ 13,578,651	$ 26,776,244
Operating expenses	$ 11,784,621	$ 11,597,170	$ 23,381,791
Operating income	$ 1,412,972	$ 1,981,481	$ 3,394,453
Increase in net position before capital contributions	$ 888,320	$ (850,412)	$ 37,908

The Division does not separately account for the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the two segments.

Note 14: Future Changes in Accounting Principle

GASB Statement No. 87, Leases, was issued in June 2017. The provisions of the statement are effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). This statement requires certain lease assets and liabilities for leases that were previously classified as operating leases to be recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Division has yet to determine the impact GASB Statement No. 87 will have on its financial statements.

Required Supplementary Information

Water/Sewer 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

	2018	2017	2016	2015
Division's proportion of the net pension liability	0.2425%	0.2323%	0.2355%	0.2337%
Division's proportionate share of the net pension liability	$ 14,004,524	$ 11,314,915	$ 10,081,994	$ 7,581,385
Division's covered payroll	$ 5,868,871	$ 5,449,971	$ 5,463,226	$ 5,731,214
Division's proportionate share of the net pension liability as a percentage of its covered payroll	238.62%	207.61%	184.54%	132.28%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%

Note to Schedule: *Changes in assumptions* - In the fiscal year 2018, the CERS Non-Hazardous investment rate and discount rate both decreased from 7.50% to 6.25%, the inflation rate decreased from 3.25% to 2.30%, and the estimated salary increases decreased from 4.00% to 3.05%. In the fiscal year 2016, the CERS Non-Hazardous investment rate and discount rate both decreased from 7.75% to 7.50%, the inflation rate decreased from 3.50% to 3.25%, and the estimated salary increased decreased from 4.50% to 4.00%. Additionally, the mortality tables changed from the 1983 and 1994 Group Annuity Mortality Tables to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (adjusted for males and females).

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 date (June 30 of the previous year) of the collective net pension liability.

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of the Division's Pension Contributions
County Employees Retirement System of the State of Kentucky
Last 10 Fiscal Years

	2018	2017	2016	2015
Contractually required contribution	$ 856,804	$ 818,708	$ 676,886	$ 696,561
Contribution in relation to the contractually required contribution	856,804	818,708	676,886	696,561
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Division's covered payroll	$ 5,917,157	$ 5,868,871	$ 5,449,971	$ 5,463,226
Contributions as a percentage of covered payroll	14.48%	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 avaliable.

Note to Schedule: Amounts presented for the fiscal year were determined as of June 30.

Water/Sewer 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 OPEB Liability
County Employees Retirement System of the State of Kentucky
Last 10 Fiscal Years

	2018
Division’s proportion of the net OPEB liability	0.2425%
Division’s proportionate share of the net OPEB liability	$ 4,875,406
Division’s covered payroll	$ 5,868,871
Division’s proportionate share of the net OPEB liability as a percentage of its covered payroll	83.07%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

Note to Schedule: *Changes in assumptions* - In the fiscal year 2018, the CERS Non-Hazardous investment rate decreased from 7.50% to 6.25%, the discount rate decreased from 6.89% to 5.84%, the inflation rate decreased from 3.25% to 2.30%, and the estimated salary increases decreased from 4.00% to 3.05%.

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 date (June 30 of the previous year) of the collective net OPEB liability.

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of the Division's OPEB Contributions
County Employees Retirement System of the State of Kentucky
Last 10 Fiscal Years

	2018
Contractually required contribution	$ 278,106
Contribution in relation to the contractually required contribution	278,106
Contribution deficiency (excess)	$ -
Division's covered payroll	$ 5,917,157
Contributions as a percentage of covered payroll	4.70%

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

Note to Schedule: Amounts presented for the fiscal year were determined as of June 30.

Supplementary Information

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of Investments and Restricted Funds
June 30, 2018

Water/Sewer Debt Service Fund		
Investments/cash	$	1,410,512
Invested Sinking Fund		
Investments/cash		1,203,145
Water/Sewer Depreciation Fund		
Investments/cash		1,501,838
Maintenance and Replacement Reserve		
Investments/cash		1,106,768
	$	5,222,263

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of Revenues and Expenses – Water Segment
Year Ended June 30, 2018

Water Segment

Operating Revenues	
Metered and unmetered sales	$ 12,509,796
Miscellaneous service revenues	183,510
Penalties – delinquent accounts	55,041
Nonutility revenues	449,246
Total operating revenues	13,197,593
Operating Expenses	
Purification	2,748,245
Distribution	1,509,162
Engineering	612,698
Customers accounting and collection	573,554
Administrative and general	3,879,851
Uncollectible accounts	26,591
Depreciation, excluding vehicles	2,434,520
Total operating expenses	11,784,621
Operating income	1,412,972
Other Income (Expenses)	
Interest income	46,651
Interest expense	(571,303)
Net other expenses	(524,652)
Increase in Net Position, Before Capital Contributions	$ 888,320

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of Revenues and Expenses – Sewer Segment
Year Ended June 30, 2018

Sewer Segment

Operating Revenues	
Metered and unmetered sales	$ 12,605,810
Industrial sewer surcharges	665,392
Penalties – delinquent accounts	72,513
Nonutility revenues	234,936
Total operating revenues	13,578,651
Operating Expenses	
Customers accounting and collection	566,061
Engineering	470,845
Sewer plant and disposal	4,221,543
Administrative and general	3,231,508
Uncollectible accounts	28,408
Depreciation	3,078,805
Total operating expenses	11,597,170
Operating income	1,981,481
Other Income (Expenses)	
Interest income	21,042
Loss on disposition of utility plant	(2,315,305)
Interest expense	(537,630)
Net other expenses	(2,831,893)
Decrease in Net Position, Before Capital Contributions	$ (850,412)

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of Selected Expense Categories
Year Ended June 30, 2018

Purification Expenses		
Supervision and labor	$	1,094,632
Supplies and expense		63,363
Chemicals		819,337
Repairs to structure		142,820
Repairs to equipment		26,899
Electric power purchased		617,597
Miscellaneous expense		27,769
	$	2,792,417
Distribution Expenses		
Supervision and labor	$	1,357,576
Repairs to distribution lines		9,131
Repairs to and changing mains		44,343
Repairs to service lines		65,211
Repairs to customer meters		11,167
Electric power purchased		60,229
Miscellaneous expense		33,131
	$	1,580,788
Engineering Expenses		
Supervision and labor	$	853,950
Supplies and expense		12,398
Transportation		71,837
Software systems		97,123
Outside services		48,235
	$	1,083,543
Customers Accounting and Collections		
Supervision and labor	$	738,262
Supplies and expense		186,569
Equipment rent and maintenance		214,784
	$	1,139,615

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of Selected Expense Categories (Continued)
Year Ended June 30, 2018

Sewer Plant and Disposal Expenses	
Supervision and labor	$ 1,848,293
Supplies and expense	40,278
Sludge hauling	650,601
Chemicals	431,444
Power purchased	834,011
Repairs to structure	8,524
Repairs to equipment	195,143
Repairs to service lines	75,779
Repairs to mains	43,397
Repairs to interceptor lines	72,887
Miscellaneous expenses	21,186
	$ 4,221,543
Administrative and General Expenses	
Management and administrative salaries – Water	$ 416,024
Management and administrative salaries – Sewer	419,155
Insurance – Water	215,762
Insurance – Sewer	162,785
Transportation – Water	3,680
Transportation – Sewer	3,680
Other general expense – Water	169,125
Other general expense – Sewer	168,136
Payroll taxes – Water	229,623
Payroll taxes – Sewer	203,751
Professional services	155,481
Office rent – ED	62
Equipment rent and maintenance	372,079
Employee benefits – Water	2,311,562
Employee benefits – Sewer	1,926,521
Paying agent fees – Water	78
Paying agent fees – Sewer	78
Gross receipts tax	237,979
	$ 6,995,561

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of Interest Income
Year Ended June 30, 2018

2011/2012 Debt Service Fund	$	2,766
Invested Sinking Fund – Bonds		15,292
KIA Waste Water Project Reserve Fund/		
2004 Bond Construction Fund		46,828
Water/Sewer Operating Fund		2,308
Water/Sewer Depreciation Fund		499
	$	67,693

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of Interest Expense
Year Ended June 30, 2018

Interest on long-term debt	$ 1,108,933

BKD
CPAs & Advisors

360 E. 8th Avenue, Suite 201 | P.O. Box 1196 | Bowling Green, KY 42102-1196
270.781.0111 | Fax 270.843.0359 | bkd.com

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 Water/Sewer 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, 2018, 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, 2018, which contained *Emphasis of Matters* paragraphs regarding divisional reporting and a change in accounting principle.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 30, 2018.

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, 2018