Electric 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, 2019 and 2018

BKD

CPAs & Advisors

Electric Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
June 30, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Bowling Green Municipal Utilities
Bowling Green, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric Division (Division), a Division of Bowling Green Municipal Utilities (BGMU), a component unit of the City of Bowling Green, Kentucky, as of and for the years ended June 30, 2019 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of June 30, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Division are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities that are 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, 2019 and 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.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019, 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, 2019

Electric Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2019 and 2018

Our discussion and analysis of the Electric Division (Division) of Bowling Green Municipal Utilities' (BGMU) financial performance provides an overview of the Division's financial activities for the fiscal years ended June 30, 2019 and 2018. Please read it in conjunction with the Independent Auditor's Report and the Division's financial statements, which are included. The adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* has not been reflected in the 2017 information included in this management's discussion and analysis.

Financial Highlights

- The Division's net utility plant increased by $644,915, or 1.12%.
- The Division's total assets and deferred outflows of resources decreased $659,559, or 0.73%.
- The Division's noncurrent liabilities decreased by $839,950, or 2.97%.
- The Division's total decrease in net position for 2019 was $457,048.
- The Division purchased power from Tennessee Valley Authority (TVA). Purchased power costs for the fiscal year are 80.90% of electric sales.

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 <u>at</u> 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 <u>during</u> 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 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, 2019, are Sarah Glenn Grise, Todd Davis (chairman), Steve Snodgrass (secretary), Donna Harmon and Bruce Wilkerson. The members of the Board are appointed by the mayor, subject to the approval of the City Commission. Mayor Bruce Wilkerson is the City's representative to the Board.

BGMU's management staff members 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, 2019, the Division had 25,857 residential customers and 4,767 industrial and commercial customers. The Electric Division has no wholesale customers. The Division currently purchases power from TVA.

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, loans and customer revenues.

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

Financial Analysis of the Division as a Whole

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

Condensed Balance Sheets
(Dollars in Thousands)

	June 30			Increase (Decrease) 2018 to 2019	
	2019	2018	2017	$	%
Current assets	$ 26,474	$ 26,726	$ 26,168	$ (252)	1%
Utility plant, net	58,089	57,444	55,894	645	1%
Restricted assets and investments	1,247	1,299	1,182	(52)	4%
Other assets	33	5	5	28	560%
Total assets	85,843	85,474	83,249	369	0%
Deferred outflows of resources	3,851	4,879	2,339	(1,028)	21%
Total assets and deferred outflows of resources	$ 89,694	$ 90,353	$ 85,588	$ (659)	1%
Long-term debt	$ 9,105	$ 9,610	$ 10,104	$ (505)	5%
Long-term liabilities	18,345	18,680	11,524	(335)	2%
Current liabilities	17,449	17,468	16,500	(19)	0%
Total liabilities	44,899	45,758	38,128	(859)	2%
Deferred inflows of resources	1,316	659	130	657	100%
Net position (deficit)					
Net investment in capital assets	48,489	47,350	45,316	1,139	2%
Restricted	1,247	1,299	1,182	(52)	4%
Unrestricted	(6,257)	(4,713)	832	(1,544)	33%
Total net position	43,479	43,936	47,330	(457)	1%
Total liabilities, deferred inflows of resources and net position	$ 89,694	$ 90,353	$ 85,588	$ (659)	1%

Electric Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management’s Discussion and Analysis
Years Ended June 30, 2019 and 2018

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

	June 30			Increase (Decrease) 2018 to 2019	
	2019	**2018**	**2017**	**$**	**%**
Operating revenues					
Electric sales	$ 87,199	$ 87,520	$ 86,950	$ (321)	0%
Other operating revenues	1,894	1,715	1,683	179	10%
Total operating revenues	89,093	89,235	88,633	(142)	0%
Other revenues	409	329	191	80	24%
Total revenues	89,502	89,564	88,824	(62)	0%
Purchased power	70,541	69,984	70,240	557	1%
Operation expense	9,065	9,462	7,949	(397)	4%
Maintenance expense	2,747	2,692	2,586	55	2%
Other operating expense	7,303	7,182	6,967	121	2%
Interest and debt expense	303	314	314	(11)	4%
Total expenses	89,959	89,634	88,056	325	0%
Increase (decrease) in net position	(457)	(70)	768	(387)	553%
Beginning net position, as previously reported	43,936	47,330	46,562	(3,394)	7%
Cumulative effect of change in accounting principle	-	(3,324)	-	3,324	100%
Beginning net position, as restated	43,936	44,006	46,562	(70)	0%
Ending net position	$ 43,479	$ 43,936	$ 47,330	$ (457)	1%

Comments Regarding Variances

Balance Sheets

Current assets are $252,350, or 0.94%, less in 2019 than in 2018. Long-term liabilities decreased $839,950, or 2.97% in 2019. The net pension liability increased $321,881 and other postemployment benefits liability (OPEB) decreased $595,509 in 2019 from 2018, respectively. Long-term debt (which includes current portion of long-term debt) decreased $494,695, or 4.90%, in 2019.

Statements of Revenues, Expenses and Changes in Net Position

The majority of the Division's revenues result from electric sales ($87.2 million, or 98%, of total operating revenues in 2019 as compared to $87.5 million, or 98%, of total operating revenues in 2018). The other four categories are connection fees, forfeited discounts, miscellaneous service revenues and rents. Electric sales are $320,633, or 0.37%, less in 2019 than 2018. Growth in number of customers has been slow in prior years, continuing to grow slowly in 2019, increasing by only 502 customers, or 1.67%, (from 30,122 to 30,624 residential, commercial and industrial customers) and by 395 customers, or 1.33%, in 2018 (from 29,727 to 30,122 residential, commercial and industrial customers). While the customer base did not change significantly, electric sales can still fluctuate significantly (increase or decrease) as the utility industry is "weather-driven." The total monthly fuel cost (TMFC) adjustment mechanism used by TVA to forecast, track, and reconcile spending on different fuel and purchased power used to meet customer demand for electricity continues to be a factor in revenue fluctuations.

There was an increase in purchased power of $556,924, or 0.80%, when comparing 2019 to 2018. The current year power costs are 80.90% of electric sales in 2019, as compared to 79.96% of electric sales in 2018. The other fluctuations year-to-year can be attributed to the TMFC.

Gross interest income increased in 2019 by $105,424, or 57.14%.

Total operating expenses, excluding power costs, were 21.46% of operating revenues in 2019 and 21.67% 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.*, street light repair as opposed to customer premises lighting; overhead line operating expense as opposed to maintenance efforts. Major variances between years can and do occur. This year, the 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; County Employees Retirement System of Kentucky (CERS), health, dental, disability and life insurance and various company functions. Salary and hourly costs increased by approximately 3.1% in 2019 for merit increases.
- TVA bills wholesale power costs based on a rate structure known as modified time of use. This causes seasonality (summer, winter and transition periods) to the Division's wholesale power costs, as well as "on-peak" and "off-peak" rates.

Statements of Cash Flows

Cash flows from operating activities for the current year totaled $5,054,183. This is a decrease of $624,401, or 11.00%.

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year, the Division's investment in capital assets amounted to $58,089,213, which is stated net of $53,594,504 of accumulated depreciation. This investment in capital includes:

- Transmission plant
- Distribution plant
- General plant

During 2019, the net increase in the Division's investment in capital assets before taking into account depreciation was $4,610,283. Major capital assets events during 2019 include the following:

- Net increase to distribution plant of $3,997,167
- Net increase in general plant of $89,069
- Net increase in transmission plant of $79,073
- Decrease to construction in progress of $1,234,752, relating primarily to the rebuilding of the South Industrial substation

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

	June 30		
	2019	**2018**	**2017**
Transmission system assets	$ 2,611	$ 2,532	$ 2,505
Distribution system assets	93,024	89,027	87,827
General plant	15,055	14,966	14,020
Total plant in service	110,690	106,525	104,352
Accumulated depreciation	53,595	51,309	49,812
	57,095	55,216	54,540
Construction in progress	994	2,228	1,354
Net utility plant	$ 58,089	$ 57,444	$ 55,894

Long-Term Debt and Debt Administration

At the end of the fiscal year, the Division had $9,599,770 in long-term debt outstanding, which was down $494,695 over the prior year's $10,094,465. TVA 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, 2019, 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:

- TVA implemented a TMFC adjustment mechanism. This mechanism allows TVA to forecast, track and reconcile spending on different fuel and purchased power used to meet customer demand for electricity. The TMFC adjustment changes monthly.

- Employment costs: health costs continue to rise for BGMU as they do for other employers. In an attempt to find a balance of cost efficiency and employee benefit BGMU moved to a self-insured health insurance plan beginning January 1, 2019.

  Trustees of the Kentucky Retirement Systems, which manages, among others, the pension and post-employment insurance 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 employer CERS non-hazardous rates at that time of 19.18%. 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 24.06% beginning July 1, 2019. The employee contribution remains 5.00%.

- Large capital improvements anticipated for the next fiscal year include:

Overhead distribution projects	$768,750
Overhead transmission projects	$230,000
Street light system	$510,000
Substation equipment	$970,000
Line transformers	$650,000
Poles, towers and fixtures	$400,000
AMI meters and meter equipment	$1,052,304
Transportation equipment	$540,000

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.

Electric Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Balance Sheets
June 30, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets		
Cash and cash equivalents	$ 16,176,548	$ 16,088,771
Accounts receivable – customers, net of allowance; 2019 – $14,000 and 2018 – $14,000	6,739,028	8,428,204
Accounts receivable – other	108,104	70,641
Accounts receivable – Water/Sewer Division	138,321	117,515
Accounts receivable – General Services Division	-	700
Inventories	1,028,831	994,559
Prepayment to TVA	1,946,368	562,671
Prepaid expenses	265,445	392,631
Other	71,128	70,431
Total current assets	26,473,773	26,726,123
Noncurrent Cash and Investments		
Restricted investments	1,146,706	1,199,194
Other long-term investment	100,000	100,000
	1,246,706	1,299,194
Utility Plant		
Distribution plant	93,023,975	89,026,808
General plant	15,054,636	14,965,567
Transmission plant	2,611,222	2,532,149
Construction in progress	993,884	2,228,636
	111,683,717	108,753,160
Accumulated depreciation	(53,594,504)	(51,308,862)
Total utility plant, net	58,089,213	57,444,298
Other Assets	33,016	4,716
Total assets	85,842,708	85,474,331
Deferred Outflows of Resources	3,850,984	4,878,920
Total assets and deferred outflows of resources	$ 89,693,692	$ 90,353,251

Electric Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Balance Sheets
June 30, 2019 and 2018

Liabilities, Deferred Inflows of Resources and Net Position

	2019	2018
Current Liabilities		
Current maturities of long-term debt	$ 495,000	$ 485,000
Accounts payable	7,789,282	8,531,845
Accounts payable – Water/Sewer Division	438,810	385,203
Accounts payable – General Services Division	41,887	22,860
Accrued expenses	903,929	616,195
Accrued compensated absences	533,957	472,266
Interest payable	940,311	958,965
Customer deposits	6,305,804	5,995,808
Total current liabilities	17,448,980	17,468,142
Noncurrent Liabilities		
Net pension liability	14,045,652	13,723,771
Net other postemployment benefits liability	4,015,838	4,611,347
Accrued compensated absences	227,126	294,217
Advances for construction	56,950	51,486
Long-term debt, net of unamortized discount; 2019 – $30,417 and 2018 – $32,565; net of unamortized premiums; 2019 – $200,187 and 2018 – $212,030	9,104,770	9,609,465
Total noncurrent liabilities	27,450,336	28,290,286
Total liabilities	44,899,316	45,758,428
Deferred Inflows of Resources	1,315,718	659,117
Net Position (Deficit)		
Net investment in capital assets	48,489,443	47,349,833
Restricted for debt service	1,246,706	1,299,194
Unrestricted	(6,257,491)	(4,713,321)
Total net position	43,478,658	43,935,706
Total liabilities, deferred inflows of resources and net position	$ 89,693,692	$ 90,353,251

Electric Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Electricity sales	$ 87,199,101	$ 87,519,734
Connection fees	315,475	309,755
Forfeited discounts	553,234	510,576
Miscellaneous service revenues	337,857	301,479
Rents from electric properties	687,649	593,293
Total operating revenues	89,093,316	89,234,837
Operating Expenses		
Purchased power	70,540,794	69,983,870
Operation expense		
Distribution	1,937,818	2,166,060
Customer service	182,743	180,175
Customer accounts	1,356,393	1,313,583
Sales	138,643	86,585
Administrative and general	5,449,309	5,715,952
Maintenance expense		
Distribution	2,359,562	2,292,760
Administrative and general	387,019	399,142
Other operating expense		
Depreciation, excluding vehicles	3,718,106	3,632,390
Taxes	3,585,849	3,549,444
Total operating expenses	89,656,236	89,319,961
Operating Loss	(562,920)	(85,124)
Nonoperating Revenues (Expenses)		
Interest income	289,939	184,515
Gains from merchandising and contract work, net	119,164	144,209
Interest expense	(303,231)	(313,852)
Net nonoperating revenues	105,872	14,872
Decrease in Net Position	(457,048)	(70,252)
Net Position, Beginning of Year	43,935,706	44,005,958
Net Position, End of Year	$ 43,478,658	$ 43,935,706

Electric Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Cash received from customers	$ 89,198,273	$ 87,007,896
Purchased power	(71,924,491)	(70,100,811)
Payments to employees and other payments to suppliers	(10,557,949)	(9,392,634)
Other payments – taxes and tax equivalents	(3,555,865)	(3,550,970)
Other revenues (forfeited discounts, miscellaneous service revenues)	1,894,215	1,715,103
Net cash provided by operating activities	5,054,183	5,678,584
Capital and Related Financing Activities		
Purchase of capital assets	(4,076,678)	(5,104,068)
Proceeds from disposition of assets	119,164	144,208
Principal payments on bonds	(485,000)	(475,000)
Interest paid on bonds and customer deposits	(331,580)	(330,724)
Removal costs	(534,739)	(313,027)
Net cash used in capital and related financing activities	(5,308,833)	(6,078,611)
Investing Activities		
Sales and redemptions of investments	4,596,660	4,036,189
Purchases of investments	(4,544,172)	(4,153,282)
Interest income	289,939	184,515
Net cash provided by investing activities	342,427	67,422
Increase (Decrease) in Cash and Cash Equivalents	87,777	(332,605)
Cash and Cash Equivalents, Beginning of Year	16,088,771	16,421,376
Cash and Cash Equivalents, End of Year	$ 16,176,548	$ 16,088,771

Electric Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statements of Cash Flows (Continued)
Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	$ (562,920)	$ (85,124)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,965,368	3,951,983
Changes in		
Accounts receivable – customers	1,689,176	(652,712)
Prepayment to TVA	(1,383,697)	(116,941)
Inventories	(34,272)	(32,258)
Prepaid expenses and other current assets	68,920	(89,441)
Other noncurrent assets	(28,300)	32
Deferred outflows of resources – pension	861,672	(1,278,370)
Deferred outflows of resources – other postemployment benefits and other	160,972	(263,044)
Deferred outflows of resources – debt refunding	5,292	5,292
Accounts payable and accrued expenses	(319,370)	743,105
Net pension liability	321,881	2,543,936
Net other postemployment benefits liability	(595,509)	525,480
Deferred inflows of resources – pension	77,567	287,507
Deferred outflows of resources – other postemployment benefits and other	579,034	-
Customer deposits	309,996	140,874
Noncurrent liabilities	(61,627)	(1,735)
Net cash provided by operating activities	$ 5,054,183	$ 5,678,584
Noncash Investing, Capital and Financing Activities		
Utility plant and construction in progress in accounts payable	$ 172,840	$ 173,974

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

Nature of Operations

The Electric Division (Division) of Bowling Green Municipal Utilities (BGMU) owns and operates the electric transmission and distribution system in the City of Bowling Green, Kentucky (City). The Division is a distributor of electrical power under the authority of the Federal Energy Regulatory Commission (FERC) and Tennessee Valley Authority (TVA). The Division provides service to customers primarily in the City.

Financial Reporting Division

BGMU is a municipal corporation governed by a five member board (Board). The members of the Board are appointed by the mayor subject to the approval of the City Commission. BGMU operates three distinct divisions: the Division, Water/Sewer Division (WSD) 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:

- 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.
- The Division makes “payments in lieu of taxes” to the City based on its investment in utility plant.

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, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses 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, 2019 and 2018, cash equivalents consisted of a money market account.

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. Certificates of deposit are stated at cost plus accrued interest, which approximates 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 income.

Accounts Receivable

Accounts receivable are 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 Premium and Discount

Bond premium and discount costs arising from the 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. Costs are determined 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 and 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 noncurrent liabilities.

Utility Plant

Utility plant is stated at original cost when first constructed or purchased. The cost of the current repairs and maintenance is charged to expense as incurred, while the cost of replacements and betterments is capitalized. At such time as property is retired and removed from service, the cost of the property, together with removal cost, less salvage value, is charged against accumulated depreciation.

Periodically, the state of Kentucky will have construction projects, which will require relocation of Division equipment (poles, etc.). The Division has a contract with the state of Kentucky to do this work, as needed. The state will pay the Division a fixed amount for such a relocation job, which may be less than the actual cost to relocate this equipment. The difference, which is underwritten by the Division, is capitalized to utility plant.

The Division capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project and net of interest earned on investments acquired with the proceeds of the borrowing. No interest was capitalized for the years ended June 30, 2019 and 2018.

Depreciation

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

Transmission plant	20–50 years
Distribution plant	20–50 years
General plant	5–50 years

Capital Asset Impairment

The Division evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionally, such that the net decrease equals the impairment loss.

No asset impairment was recognized during the years ended June 30, 2019 and 2018.

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.

Operating Revenues and Purchased Power

The Division recognizes metered sales revenue based on cycle billings, whereby customers are billed at various dates throughout the month for electric service through metering dates. Additionally, purchased power from TVA represents wholesale metering through the end of the month. The Division also accrues for unbilled revenues for electric service from the most recent metering date to the end of each accounting period. At June 30, 2019 and 2018, accounts receivable included approximately $1,503,499 and $2,343,967, respectively, of unbilled revenues.

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.

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.

Note 2: Deposits, Investments and Investment Income

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, 2019 and 2018, the carrying amounts of the Division's deposits were $16,276,548 and $16,188,771, respectively, and the bank balances were $15,832,946 and $16,096,370, respectively, which were covered by federal deposit insurance or by collateral held by the bank's agent in the Division's name.

Investments

The Division may legally invest in direct obligations and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, 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, 2019 and 2018, the Division had the following investments and maturities:

		2019			
		Maturities in Years			
Type	Fair Value	Less than 1	1 – 5	6 – 10	More than 10
Money market account	$ 1,146,706	$ 1,146,706	$ -	$ -	$ -

		2018			
		Maturities in Years			
Type	Fair Value	Less than 1	1 – 5	6 – 10	More than 10
Money market account	$ 1,199,194	$ 1,199,194	$ -	$ -	$ -

Interest Rate Risk – Interest rate risk is the risk of fair value losses arising from rising interest rates. 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, 2019 and 2018, the Division’s investments in U.S. agencies obligations not directly guaranteed by the U.S. Government were rated by Standard & Poor’s and by Moody’s Investors Services as AAA.

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, 2019 and 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.

Summary of Carrying Values

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

	2019	2018
Carrying value		
Deposits	$ 16,276,548	$ 16,188,771
Investments	1,146,706	1,199,194
	$ 17,423,254	$ 17,387,965
Included in the following balance sheet captions		
Cash	$ 16,176,548	$ 16,088,771
Noncurrent cash and investments	1,246,706	1,299,194
	$ 17,423,254	$ 17,387,965

Investment Income

Investment income for the years ended consisted of:

	2019	2018
Interest income	$ 289,939	$ 184,515

Deposits include a non-negotiable certificate of deposit of $100,000 at June 30, 2019 and 2018.

Note 3: Utility Plant

Utility plant activity for the years ended June 30, 2019 and 2018 was:

	2019			
	Beginning of Year	Additions	Disposals	End of Year
Transmission plant	$ 2,532,149	$ 109,061	$ (29,988)	$ 2,611,222
Distribution plant	89,026,808	5,006,935	(1,009,768)	93,023,975
General plant	14,965,567	194,300	(105,231)	15,054,636
Utility plant in service	106,524,524	5,310,296	(1,144,987)	110,689,833
Construction in progress	2,228,636	(1,234,752)	-	993,884
Total utility plant	108,753,160	4,075,544	(1,144,987)	111,683,717
Accumulated depreciation	(51,308,862)	(3,965,368)	1,679,726	(53,594,504)
Utility plant, net	$ 57,444,298	$ 110,176	$ 534,739	$ 58,089,213

	2018			
	Beginning of Year	Additions	Disposals	End of Year
Transmission plant	$ 2,504,374	$ 55,668	$ (27,893)	$ 2,532,149
Distribution plant	87,827,096	3,142,186	(1,942,474)	89,026,808
General plant	14,020,068	1,116,813	(171,314)	14,965,567
Utility plant in service	104,351,538	4,314,667	(2,141,681)	106,524,524
Construction in progress	1,354,363	874,273	-	2,228,636
Total utility plant	105,705,901	5,188,940	(2,141,681)	108,753,160
Accumulated depreciation	(49,811,588)	(3,951,983)	2,454,709	(51,308,862)
Utility plant, net	$ 55,894,313	$ 1,236,957	$ 313,028	$ 57,444,298

The Division allocates depreciation for vehicles to transportation expense. The amount of depreciation charged to transportation expense was $247,262 and $319,593 for the years ended June 30, 2019 and 2018, respectively.

Note 4: Deferred Outflows of Resources

As of June 30, 2019 and 2018, the deferred outflows of resources consisted of $2,656,052 and $3,517,724, respectively, related to pensions (see Note 9), $1,105,472 and $1,266,444, respectively, related to other postemployment benefits liability (see Note 10) and $89,460 and $94,752, respectively, related to debt refunding. The amount related to debt refunding will be recognized in interest expense using the straight-line method over the next 20 years.

Note 5: Deferred Inflows of Resources

As of June 30, 2019 and 2018, the deferred inflows of resources consisted of $495,247 and $417,680, respectively, related to pensions (see Note 9) and $820,471 and $241,437, respectively, related to other postemployment benefits liability (see Note 10).

Note 6: Long-Term Liabilities

The following is a summary of long-term debt transactions for the Division for the years ended June 30, 2019 and 2018:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds					
Series 2013	$ 4,525,000	$ -	$ 245,000	$ 4,280,000	$ 250,000
Series 2016	5,390,000	-	240,000	5,150,000	245,000
	9,915,000	-	485,000	9,430,000	495,000
Less unamortized bond discount	32,565	-	2,147	30,418	-
Plus unamortized bond premiums	212,030	-	11,842	200,188	-
Total long-term debt obligations	$ 10,094,465	$ -	$ 494,695	$ 9,599,770	$ 495,000

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds					
Series 1997	$ 85,000	$ -	$ 85,000	$ -	$ -
Series 2013	4,675,000	-	150,000	4,525,000	245,000
Series 2016	5,630,000	-	240,000	5,390,000	240,000
	10,390,000	-	475,000	9,915,000	485,000
Less unamortized bond discount	35,011	-	2,446	32,565	-
Plus unamortized bond premiums	223,873	-	11,843	212,030	-
Total long-term debt obligations	$ 10,578,862	$ -	$ 484,397	$ 10,094,465	$ 485,000

Revenue Bonds Payable – Series 1997

The Series 1997 revenue bonds payable, which were held by the public, consisted of Electric Plant Board Revenue Refunding Bonds in the original amount of $5,765,000 dated October 1, 1997, which bore interest at 4.40% to 5.00%. The bonds were payable in annual installments through April 1, 2018. The Division was 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. All of the bonds outstanding were subject to redemption prior to their maturity, in whole or in part, in the reverse order of their maturities. These bonds may be redeemed at a redemption price expressed as a percentage of the face amount of the bonds to be redeemed, plus accrued interest to the redemption date. The redemption price is 100% of the face amount of the bonds. The bonds were secured by the net revenues of the Division, and the assets restricted under the bond indenture agreement. The bond payable was paid in full during the year ended June 30, 2018.

Revenue Bonds Payable — Series 2013

The Series 2013 revenue bonds payable, which are held by the public, consist of Electric Plant Board Revenue Bonds in the original amount of $5,350,000 dated September 4, 2013, which bear interest at 1.00% to 4.30%. The bonds are payable in annual installments through April 1, 2033. 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 April 1, 2024, are subject to redemption prior to maturity, at the option of the Division, on any date on or after October 1, 2023, in whole or in part, in any order of maturities and by lot within a single maturity, at a redemption price of 100% of the principal amount of the Series 2013 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.

Revenue Bonds Payable — Series 2016

The Series 2016 revenue bonds payable, which are held by the public, consist of Electric Plant Board Revenue Bonds in the original amount of $5,885,000 dated May 25, 2016, which bear interest at 2.00% to 3.00%. The bonds are payable in annual installments through April 1, 2036. 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 April 1, 2027, are subject to redemption prior to maturity, at the option of the Division, on any date on or after April 1, 2026, in whole or in part, in any order of maturities and by lot within a single maturity, at a redemption price of 100% of the principal amount of the Series 2016 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 debt service requirements as of June 30, 2019, are as follows:

Year Ended June 30	Interest	Principal	Total
2020	$ 293,690	$ 495,000	$ 788,690
2021	282,915	505,000	787,915
2022	271,285	515,000	786,285
2023	259,165	530,000	789,165
2024	245,865	540,000	785,865
2025–2029	973,833	2,975,000	3,948,833
2030–2034	422,468	3,125,000	3,547,468
2035–2036	33,600	745,000	778,600
	$ 2,782,821	$ 9,430,000	$ 12,212,821

Compensated Absences

During the years ended June 30, 2019 and 2018, additions to long-term compensated absences for the Division totaled $83,291 and $104,955, respectively, while deductions totaled $150,382 and $106,690, respectively.

Note 7: Related-Party Transactions

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

	2019	2018
Balances		
Current receivable from WSD	$ 138,321	$ 117,515
Current receivable from GSD	$ -	$ 700
Current payable to GSD	$ (41,887)	$ (22,860)
Current payable to WSD	$ (438,810)	$ (385,203)
Transactions		
Rent income from GSD (for pole and office rental)	$ 92,011	$ 88,144
Rent income from WSD (for communication equipment)	$ 39,144	$ -
Rent expense to WSD (for office space rental)	$ 372,000	$ 372,000
Utility sales to WSD	$ 1,658,899	$ 1,593,355
Utility sales to GSD	$ 27,496	$ 26,164
Utility purchases from GSD	$ 107,452	$ 106,363
Utility purchases from WSD	$ 8,739	$ 6,662
Rent expense paid to WSD (for computer and radio usage)	$ 44,592	$ 44,592

Note 8: Purchased Power Contracts

The Division purchases its electric power on a wholesale basis from TVA. The Power Supply Contract (Contract) between TVA, the City and the Division, dated December 22, 1978, calls for:

- TVA to produce and deliver to BGMU the electric power required to service BGMU's customers.
- BGMU to inform TVA of important developments affecting probable future loads or service agreements.
- BGMU to serve all its customers directly, TVA can serve federal buildings and large industrial customers (greater than 10,000,000 kilowatt hours per month).
- The funds and accounts of the Division to be separate from and not commingled with funds and accounts of other BGMU Utilities or of the City.
- The City to be limited to receiving only "in lieu of tax" payments.

An agreement dated October 1, 1997, revised the Contract. The agreement allows either party to terminate the Contract with five years written notice. Additionally, the agreement states TVA may not charge or impose charges for unrecovered fixed costs (stranded investments) should the Contract be terminated under the notification provisions of the agreement.

Note 9: 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 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 (16.22% and 14.48%) and healthcare benefits (5.26% and 4.70%) for the years ended June 30, 2019 and 2018, was 21.48% and 19.18%, respectively, of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the years ended June 30, 2019 and 2018, contributions to the pension plan from the Division were $923,482 and $810,399, respectively.

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

At June 30, 2019 and 2018, the Division reported a liability of $14,045,652 and $13,723,771, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of this date. BGMU's proportion of the net pension liability was based on BGMU's actual total employer contributions for the years ended June 30, 2018 and 2017, compared to actual total employer contributions for all employers for the same period. At June 30, 2019, BGMU's proportion was 0.499230% compared to the June 30, 2018 proportion of 0.507144%. 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 44.71% at June 30, 2019, and 45.23% at June 30, 2018.

For the years ended June 30, 2019 and 2018, the Division recognized pension expense of $2,178,465 and $2,342,679, respectively. At June 30, 2019 and 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Net difference between projected and actual earnings on pension plan investments	$ -	$ 147,744
Difference between expected and actual experience	444,207	202,904
Change of assumptions	1,364,524	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	156,935	144,599
Division's contributions subsequent to the measurement date	690,386	-
Total	$ 2,656,052	$ 495,247

	2018	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Net difference between projected and actual earnings on pension plan investments	$ 179,414	$ -
Difference between expected and actual experience	17,273	340,819
Change of assumptions	2,485,052	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	261,862	76,861
Division's contributions subsequent to the measurement date	574,123	-
Total	$ 3,517,724	$ 417,680

At June 30, 2019 and 2018, the Division reported $690,386 and $574,123, respectively, as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019 and 2018, related to pensions will be recognized in pension expense as follows:

2020	$ 1,127,132
2021	547,879
2022	(180,331)
2023	(24,261)
	$ 1,470,419

Actuarial Assumptions

The total pension liability in the June 30, 2018, 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:

	Target Allocation	Long-Term Expected Real Rate of Return*
Asset Class		
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, 2018. 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 25 years (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
$ 17,682,021	$ 14,045,652	$ 10,999,011

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, 2019 and 2018, the Division reported a payable of $86,648 and $112,334, respectively, for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2019 and 2018.

Note 10: 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 type of service. Participation after July 2003: 10 years of earned service at retirement to be eligible for insurance benefits.	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 (16.22% and 14.48%) and healthcare benefits (5.26% and 4.70%) for the years ended June 30, 2019 and 2018, was 21.48% and 19.18%, respectively, of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the years ended June 30, 2019 and 2018, contributions to the OPEB plan from the Division were $299,477 and $263,044, respectively.

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

At June 30, 2019 and 2018, the Division reported a liability of $4,015,838 and $4,611,347, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. BGMU's proportion of the net OPEB liability was based on BGMU's actual total employer contributions for the years ended June 30, 2018 and 2017, compared to actual total employer contributions for all employers for the same period. At June 30, 2019 and 2018, BGMU's proportion was 0.499211% and 0.507144%, respectively, 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 44.71% at June 30, 2019, and 45.23% at June 30, 2018.

For the years ended June 30, 2019 and 2018, the Division recognized OPEB expense of $443,974 and $525,480, respectively. At June 30, 2019 and 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 275,466
Difference between expected and actual experience	-	461,962
Change of assumptions	802,970	9,155
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	73,888
Division's contributions subsequent to the measurement date	302,502	-
Total	$ 1,105,472	$ 820,471

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 217,930
Difference between expected and actual experience	-	12,808
Change of assumptions	1,003,400	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	10,699
Division’s contributions subsequent to the measurement date	263,044	-
Total	$ 1,266,444	$ 241,437

At June 30, 2019 and 2018, the Division reported $302,502 and $263,044, respectively, 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, 2019 and 2018, related to OPEB will be recognized in OPEB expense as follows:

2020	$ (199)
2021	(199)
2022	(199)
2023	52,815
2024	(48,702)
Thereafter	(21,017)
	$ (17,501)

Actuarial Assumptions

The total OPEB liability in the June 30, 2018, 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 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
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*
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 OPEB liability was 5.85% for the year ended June 30, 2018. 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 25 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 3.62%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2018. 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 5.85%. 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
$ 5,215,930	$ 4,015,838	$ 2,993,579

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 7.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The post-65 health care trend rate starts at 5.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 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
$ 2,989,831	$ 4,015,838	$ 5,225,205

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, 2019 and 2018, the Division reported a payable of $28,089 and $36,462, respectively, for the outstanding amount of contributions to the OPEB plan required for the years ended June 30, 2019 and 2018.

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.

BGMU self-insures certain costs related to employee health and accident benefit programs, including the Division's employees. Medical claims are administered by UMR, Inc. and pharmacy claims are administered by PDMI.

Note 13: Future Change in Accounting Principle

The Governmental Accounting Standards Board 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 the Governmental Accounting Standards Board Statement No. 87 will have on its financial statements.

Note 14: Subsequent Events

Subsequent events have been evaluated through September 30, 2019, which is the date the financial statements were available to be issued.

Required Supplementary Information

Electric 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

	2019	2018	2017	2016	2015
Division's proportion of the net pension liability	0.2232%	0.2294%	0.2239%	0.2305%	0.2325%
Division's proportionate share of the net pension liability	$14,045,652	$13,723,771	$ 11,179,835	$ 9,991,271	$ 7,544,205
Division's covered payroll	$ 5,596,675	$ 5,657,725	$ 5,333,277	$ 5,436,434	$ 5,703,108
Division's proportionate share of the net pension liability as a percentage of its covered payroll	250.96%	242.57%	209.62%	183.78%	132.28%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	59.97%	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.

Electric 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

	2019	2018	2017	2016	2015
Contractually required contribution	$ 923,482	$ 810,399	$ 789,253	$ 662,393	$ 693,145
Contribution in relation to the contractually required contribution	923,482	810,399	789,253	662,393	693,145
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Division's covered payroll	$ 5,693,477	$ 5,596,675	$ 5,657,725	$ 5,333,277	$ 5,436,434
Contributions as a percentage of covered payroll	16.22%	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

Electric 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

	2019	2018
Division's proportion of the net OPEB liability	0.2232%	0.2294%
Division's proportionate share of the net OPEB liability	$ 4,015,838	$ 4,611,347
Division's covered payroll	$ 5,596,675	$ 5,657,725
Division's proportionate share of the net OPEB liability as a percentage of its covered payroll	71.75%	81.51%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	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.

Electric 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

	2019	2018
Contractually required contribution	$ 299,477	$ 263,044
Contribution in relation to the contractually required contribution	299,477	263,044
Contribution deficiency (excess)	$ -	$ -
Division's covered payroll	$ 5,693,477	$ 5,596,675
Contributions as a percentage of covered payroll	5.26%	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.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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 Electric Division (Division), a division of Bowling Green Municipal Utilities, which is a component unit of the City of Bowling Green, Kentucky, which comprises the balance sheet as of June 30, 2019, 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, 2019, which contained an emphasis of matter paragraph regarding divisional reporting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Bowling Green, Kentucky
September 30, 2019

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, 2019 and 2018

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Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
June 30, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Bowling Green Municipal Utilities
Bowling Green, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the 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 years ended June 30, 2019 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of June 30, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Division are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of BGMU as of June 30, 2019 and 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.

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, 2019, 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, 2019

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2019 and 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 years ended June 30, 2019 and 2018. Please read it in conjunction with the Independent Auditor's Report and the Division's financial statements, which are included. The adoption of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* has not been reflected in the 2017 information included in this management's discussion and analysis.

Financial Highlights

- The Division's net utility plant increased by $2,841,901, or 2.04%.
- The Division's total assets and deferred outflows of resources increased by $64,913,659 or 39.35%.
- The Division's current liabilities increased by $612,182, or 9.67%.
- The Division's noncurrent liabilities increased by $58,892,163, or 73.61%.
- The Division's net position increased by $4,680,613.

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?"

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2019 and 2018

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, 2019, are Sarah Glenn Grise, Todd Davis (chairman), Steve Snodgrass (secretary), Donna Harmon and Bruce Wilkerson. The members of the Board are appointed by the mayor subject to the approval of the City Commission. Mayor Bruce Wilkerson is the City's representative to the Board.

BGMU's management staff members 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, 2019, the Division had 19,468 water customers and 21,484 wastewater customers.

The Division has one wholesale customer, Warren County Water District (WCWD). Sales to WCWD are approximately 23% of total revenues in 2019. 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
Years Ended June 30, 2019 and 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) 2018 to 2019	
	2019	2018	2017	$	%
Current assets	$ 14,937	$ 12,664	$ 10,410	$ 2,273	18%
Utility plant, net	142,073	139,231	137,598	2,842	2%
Noncurrent cash and investments	66,325	5,222	5,125	61,103	1170%
Other assets	1,923	2,385	3,070	(462)	19%
Total assets	225,258	159,502	156,203	65,756	41%
Deferred outflows of resources	4,601	5,443	2,763	(842)	15%
Total assets and deferred outflows of resources	$ 229,859	$ 164,945	$ 158,966	$ 64,914	39%
Long-term debt	$ 120,105	$ 60,932	$ 61,018	$ 59,173	97%
Long-term liabilities	18,796	19,077	11,505	(281)	1%
Current liabilities	6,944	6,332	6,595	612	10%
Total liabilities	145,845	86,341	79,118	59,504	69%
Deferred inflows of resources	1,423	694	135	729	105%
Net position					
Net investment in capital assets	73,289	73,897	72,242	(608)	1%
Restricted	9,714	5,222	5,125	4,492	86%
Unrestricted	(412)	(1,209)	2,346	797	66%
Total net position	82,591	77,910	79,713	4,681	6%
Total liabilities, deferred inflows of resources and net position	$ 229,859	$ 164,945	$ 158,966	$ 64,914	39%

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

	June 30			Increase (Decrease) 2018 to 2019	
	2019	2018	2017	$	%
Operating revenues					
Metered and unmetered sales	$ 26,037	$ 25,116	$ 24,126	$ 921	4%
Other operating revenues	1,785	1,660	1,399	125	8%
Total operating revenues	27,822	26,776	25,525	1,046	4%
Other revenues	761	68	99	693	1019%
Total revenues	28,583	26,844	25,624	1,739	6%
Operating and maintenance – water	5,382	4,870	4,610	512	11%
Operating and maintenance – sewer	4,441	4,692	4,423	(251)	5%
Administrative and billing	8,333	8,307	6,720	26	0%
Depreciation	5,692	5,513	5,442	179	3%
Interest and debt expense	1,169	1,109	1,146	60	5%
Other expense	-	2,315	-	(2,315)	100%
Total expenses	25,017	26,806	22,341	(1,789)	7%
Increase in net position	3,566	38	3,283	3,528	9284%
Beginning net position, as previously reported	77,910	79,713	76,152	(1,803)	2%
Cumulative effect of change in accounting principle	-	(3,514)	-	3,514	100%
Beginning net position, as restated	77,910	76,199	76,152	1,711	2%
Capital contributions	1,115	1,673	278	(558)	33%
Ending net position	$ 82,591	$ 77,910	$ 79,713	$ 4,681	6%

Comments Regarding Variances

Balance Sheets

Current assets are $2,272,467 or 17.94%, more in 2019 than in 2018. The current year increase relates primarily to an increase in cash and cash equivalents and other short-term investments.

Current liabilities are $612,182, or 9.67%, more in 2019 than in 2018. The current year increase pertains in large part to an increase in the current portion of long-term debt.

Statements of Revenues, Expenses and Changes in Net Position

The majority of the Division's revenues result from metered and unmetered sales (93.59% of total operating revenues in 2019 and 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 $921,736, or 3.67%, more in 2019 than in 2018. The increase can be partially attributed to the increase in rates as of July 1, 2018.

Growth in number of customers has been slow in prior years and remained so in 2019 and 2018, increasing by 479 customers, or 1.17 %, in 2019 (from 19,235 water customers and 21,238 wastewater customers in 2018 to 19,468 water customers and 21,484 wastewater customers in 2019) and 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 85.71% of operating revenues in 2019 and 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, the 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, state retirement (CERS), health, dental and disability and life insurance. Salary and hourly costs increased by approximately 3.1% in 2019 for merit increases.

Statements of Cash Flows

- Cash flows from operating activities for the current year totaled $11,603,148. This is an increase of $1,072,554 or 10.19%.

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year, the Division's investment in capital amounted to $142,072,659, which is stated net of $94,571,475 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 2019, the net increase in the Division's investment in capital assets was $2,841,901. Major capital assets events during 2019 include the following:

- Increase to water plant and system of approximately $9,041,000
- Increase to sewer plant and system of approximately $2,210,000
- Net decrease to construction in progress of approximately $2,579,000

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

	June 30		
	2019	**2018**	**2017**
Water treatment plant and system	$ 103,762	$ 94,721	$ 92,230
Wastewater treatment plant and	115,035	112,825	115,083
Land	1,829	2,669	2,642
Equipment	3,970	3,796	3,774
Trucks and autos	2,664	2,296	2,284
Office equipment	1,731	1,579	1,502
Office additions	66	66	66
Total plant in service	229,057	217,952	217,581
Accumulated depreciation	94,571	88,887	83,659
	134,486	129,065	133,922
Construction in progress	7,587	10,166	3,676
Net utility plant	$ 142,073	$ 139,231	$ 137,598

Long-Term Debt and Debt Administration

At the end of the fiscal year, the Division had $124,891,270 in long-term debt outstanding, which increased $59,557,120 over the prior year's $65,334,150, due to new 2019 KIA loan issue.

The Division has ten outstanding KIA loans (final payments due in December 2022, December 2027, June 2028, December 2030, December 2032, June 2033, November 2036 and June 2049). Revenue bonds were issued in the 2012 fiscal year to finance the construction of a new general office building. Bond funds were issued in December 2011 and January 2012, totaling $11,035,000. Final payment is due in December 2031. The Division refunded 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. A revenue bond was issued in 2019 totaling $58,470,000 to finance the construction of an expansion of the Water Treatment Plant and a new Sewer Force Main.

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, 2019, 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. Wholesale water and sewer rates to WCWD are analyzed and updated periodically. An analysis was done in fiscal year 2016. The rates incorporate all of the operating, maintenance and debt service requirements to serve WCWD. 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. Wholesale rates in subsequent years will be adjusted as debt service obligations are increased.

- Employment costs: Health costs continue to rise for BGMU as they do for other employers. In an attempt to find a balance of cost efficiency and employee benefit BGMU moved to a self-insured health insurance plan beginning January 1, 2019.

  Trustees of the Kentucky Retirement Systems, which manages, among others, the pension and post-employment insurance 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 employer CERS non-hazardous rates at that time of 19.18%. 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 24.06% beginning July 1, 2019. The employee contribution remains 5.00%.

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

Wastewater Treatment Plant expansion design and construction	$19,500,000
AMI water meter replacements	$1,250,000
Wastewater line rehab projects	$3,600,000
Wastewater Treatment Plant improvements	$500,000
Vehicles and equipment	$305,000

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 Sheets
June 30, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets		
Cash and cash equivalents	$ 10,193,765	$ 9,376,619
Accounts receivable – customers, net of allowance; 2019 – $7,500 and 2018 – $7,500	1,469,167	1,644,733
Accounts receivable – others	110,583	201,556
Accounts receivable – Electric Division	438,810	385,203
Accounts receivable – General Services Division	6,798	4,450
Current portion of long-term receivable – General Services Division	605,598	600,000
Interest receivable - General Services Division	399,668	-
Inventories	291,547	221,617
Other short-term investments	1,286,290	-
Prepaid expenses	134,546	230,127
Total current assets	14,936,772	12,664,305
Noncurrent Cash and Investments		
Restricted cash	2,684,799	2,665,246
Restricted investments	63,136,911	2,557,017
Other long-term investments	503,681	-
	66,325,391	5,222,263
Utility Plant		
Utility plant in service, at cost	229,056,820	217,952,039
Construction in progress	7,587,314	10,166,097
	236,644,134	228,118,136
Accumulated depreciation	(94,571,475)	(88,887,378)
Total utility plant, net	142,072,659	139,230,758
Other Assets		
Long-term receivable – General Services Division	1,797,044	2,250,000
Long-term receivable – other	87,500	131,250
Other	39,078	3,750
	1,923,622	2,385,000
Total assets	225,258,444	159,502,326
Deferred Outflows of Resources	4,600,971	5,443,430
Total assets and deferred outflows of resources	$ 229,859,415	$ 164,945,756

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Balance Sheets
June 30, 2019 and 2018

Liabilities, Deferred Inflows or Resources and Net Position

	2019	2018
Current Liabilities		
Current portion of long-term debt	$ 4,786,262	$ 4,401,742
Accounts payable	1,283,886	1,318,516
Accounts payable – Electric Division	138,321	117,515
Accrued interest payable	90,556	102,596
Accrued compensated absences	291,016	259,040
Customer deposits	600	100
Other current liabilities	353,581	132,531
Total current liabilities	6,944,222	6,332,040
Noncurrent Liabilities		
Net pension liability	14,350,163	14,004,524
Net other postemployment benefits liability	4,235,943	4,875,406
Long-term debt, net of unamortized discount; 2019 – $136,364 and 2018 – $150,954; net of unamortized premiums; 2019 – $2,127,032 and 2018 – $0	120,105,008	60,932,408
Accrued compensated absences	210,078	196,691
Total noncurrent liabilities	138,901,192	80,009,029
Total liabilities	145,845,414	86,341,069
Deferred Inflows of Resources	1,422,965	694,264
Net Position (Deficit)		
Net investment in capital assets	73,288,655	73,896,608
Restricted for debt service	9,714,444	5,222,263
Unrestricted	(412,063)	(1,208,448)
Total net position	82,591,036	77,910,423
Total liabilities, deferred inflows of resources and net position	$ 229,859,415	$ 164,945,756

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Metered and unmetered sales	$ 26,037,342	$ 25,115,606
Industrial sewer surcharges	784,141	665,392
Miscellaneous service revenues	178,720	182,580
Penalties – delinquent accounts	142,116	127,554
Nonutility revenues	679,182	685,112
Total operating revenues	27,821,501	26,776,244
Operating Expenses		
Purification	3,139,792	2,792,417
Distribution	1,907,331	1,580,788
Engineering	1,079,340	1,083,543
Customer’s accounting and collections	1,157,614	1,139,615
Sewer plant and disposal	3,976,136	4,221,543
Administrative and general	6,849,946	6,995,561
Uncollectible accounts	45,154	54,999
Depreciation, excluding vehicles	5,691,695	5,513,325
Total operating expenses	23,847,008	23,381,791
Operating Income	3,974,493	3,394,453
Nonoperating Revenues (Expenses)		
Interest income	733,588	67,693
Gain (loss) on dispositions of utility plant	27,178	(2,315,305)
Interest expense	(1,168,924)	(1,108,933)
Net nonoperating expenses	(408,158)	(3,356,545)
Increase in Position, Before Capital Contributions	3,566,335	37,908
Capital Contributions	1,114,278	1,674,032
Increase in Net Position	4,680,613	1,711,940
Net Position, Beginning of Year	77,910,423	76,198,483
Net Position, End of Year	$ 82,591,036	$ 77,910,423

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Cash received from customers	$ 28,088,540	$ 26,725,510
Cash paid to suppliers and employees	(16,485,392)	(16,194,916)
Net cash provided by operating activities	11,603,148	10,530,594
Capital and Related Financing Activities		
Proceeds from capital contributions	389,705	927,632
Principal payments on long-term debt	(4,401,739)	(7,618,066)
Proceeds from borrowings on long-term debt	63,944,269	7,581,850
Proceeds on sale of capital assets	27,178	106,800
Interest paid on long-term debt	(1,166,374)	(1,077,377)
Acquisition and construction of utility plant assets	(8,014,651)	(9,081,108)
Net cash provided by (used in) capital and related financing activities	50,778,388	(9,160,269)
Investing Activities		
Sales and redemptions of investments	149,249,684	32,228,986
Purchases of investments	(211,619,549)	(32,317,559)
Collection of note receivable	43,750	43,750
Collections of General Services Division note receivable	447,358	600,000
Interest income from General Services Division	152,642	-
Investment income	181,278	67,693
Net cash provided by (used in) investing activities	(61,544,837)	622,870
Increase in Cash and Cash Equivalents	836,699	1,993,195
Cash and Cash Equivalents, Beginning of Year	12,041,865	10,048,670
Cash and Cash Equivalents, End of Year	$ 12,878,564	$ 12,041,865
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 10,193,765	$ 9,376,619
Restricted cash	2,684,799	2,665,246
Total cash and cash equivalents	$ 12,878,564	$ 12,041,865

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statements of Cash Flows (Continued)
Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 3,974,493	$ 3,394,453
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	5,900,871	5,656,980
Changes in operating assets and liabilities		
Accounts receivable	210,584	(70,210)
Inventories	(69,930)	(14,106)
Prepaid expenses	95,581	(35,138)
Other assets	(35,328)	41,559
Deferred outflows of resources – pension	895,043	(1,373,555)
Deferred outflows of resources – other postemployment benefits and other	172,853	(278,106)
Deferred outflows of resources – debt refunding	(225,437)	31,622
Accounts payable and accrued liabilities	249,541	(372,055)
Net pension liability	345,639	2,689,609
Net other postemployment benefits liability	(639,463)	555,571
Deferred inflows of resources – other postemployment benefits and other	621,772	-
Deferred inflows of resources – pension	106,929	303,970
Net cash provided by operating activities	$ 11,603,148	$ 10,530,594
Noncash Investing, Capital and Financing Activities		
Utility plant and construction in progress in accounts payable	$ 598,577	$ 595,031
Capital assets in accounts receivable	$ -	$ 150,000
Contributed plant	$ 724,575	$ 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, 2019 and 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, U.S. treasury securities, U.S. agency obligations and fixed income funds are carried at fair value. Negotiable certificates of deposit are stated 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 income and the net change for the year in fair value of investments.

Accounts Receivable

Accounts receivable have 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 Premium and Discount

Bond premium and 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, 2019 and 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

Capital Asset Impairment

The Division evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionally such that the net decrease equals the impairment loss.

No asset impairment was recognized during the years ended June 30, 2019 and 2018.

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.

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, 2019 and 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 $2,183,699 and $3,975,684, respectively, and a bank balance of $2,284,417 and $4,284,555, receptively. At June 30, 2019 and 2018, the Division also had uncollateralized deposits with both carrying amounts and bank balances of $10,696,356 and $8,066,181, respectively, 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, 2019 and 2018, the Division had the following investments and maturities:

	2019				
		Maturities in Years			
Type	Fair Value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury obligations	$ 995,027	$ 995,027	$ -	$ -	$ -
Fixed income funds	399,585	399,585	-	-	-
Negotiable certificates of deposit	989,714	486,033	503,681	-	-
Money market accounts	70,773,581	70,773,581	-	-	-
	$ 73,157,907	$ 72,654,226	$ 503,681	$ -	$ -

	2018				
		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 accounts	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, 2019 and 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, 2019, 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, 2019 and 2018, the Division's investments in U.S. Treasury Note obligations constituted 1% and 7%, respectively of its total investments.

Summary of Carrying Values

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

	2019	2018
Carrying value		
Deposits	$ 4,647,539	$ 6,640,979
Investments	73,157,907	7,957,903
	$ 77,805,446	$ 14,598,882

	2019	2018
Included in the following balance sheet captions		
Cash and cash equivalents	$ 10,193,765	$ 9,376,619
Other short-term investments	1,286,290	-
Noncurrent cash and investments	66,325,391	5,222,263
	$ 77,805,446	$ 14,598,882

Investment Income

Investment income for the years ended June 30, 2019 and 2018, consisted of:

	2019	2018
Interest income – investments	$ 733,588	$ 67,693

Note 3: Utility Plant

Utility plant activity for the years ended June 30, 2019 and 2018, was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Water plant	$ 94,721,389	$ 593,439	$ -	$ 8,447,342	$ 103,762,170
Sewer plant	112,825,145	350,948	-	1,858,655	115,034,748
Equipment	3,795,799	173,768	-	-	3,969,567
Trucks and autos	2,296,110	584,452	(216,774)	-	2,663,788
Office equipment	1,578,859	152,714	-	-	1,731,573
Office additions	65,716	-	-	-	65,716
Land	2,669,021	-	-	(839,763)	1,829,258
Utility plant in service	217,952,039	1,855,321	(216,774)	9,466,234	229,056,820
Construction in progress	10,166,097	6,887,451	-	(9,466,234)	7,587,314
Total utility plant	228,118,136	8,742,772	(216,774)	-	236,644,134
Accumulated depreciation	(88,887,378)	(5,900,871)	216,774	-	(94,571,475)
Utility plant, net	$ 139,230,758	$ 2,841,901	$ -	$ -	$ 142,072,659

	2018				
	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 $209,176 and $143,655, respectively, for years ended June 30, 2019 and 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, 2019 and 2018, the deferred outflows of resources consisted of $3,035,507 and $3,930,550, respectively, related to pensions (see Note 8), $1,166,111 and $1,338,964, respectively, related to other postemployment benefits liability (see Note 9) and $399,353 and $173,916, respectively, related to debt refunding. The amount related to debt refunding will be recognized in interest expense using the straight-line method over the next five years.

Note 5: Deferred Inflows of Resources

As of June 30, 2019 and 2018, the deferred inflows of resources consisted of $545,930 and $439,001, respectively, related to pensions (see Note 8), $877,035 and $255,263, receptively, 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 years ended June 30, 2019 and 2018:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue Bonds					
Series 2011/2012	$ 8,195,000	$ -	$ 495,000	$ 7,700,000	$ 510,000
Series 2013	4,220,000	-	565,000	3,655,000	575,000
Series 2019	-	58,470,000	-	58,470,000	320,000
KIA Assistance Agreement, 2007	2,692,877	-	257,365	2,435,512	259,942
KIA Assistance Agreement, 2008	40,147,734	-	2,586,274	37,561,460	2,612,201
KIA Assistance Agreement, 2009	43,372	-	3,086	40,286	3,149
KIA Assistance Agreement, 2012	838,060	-	48,425	789,635	49,399
KIA Assistance Agreement, 2016	1,120,020	-	46,262	1,073,758	47,669
KIA Assistance Agreement, 2017	1,902,207	97,793	-	2,000,000	-
KIA Assistance Agreement, 2017	2,006,352	1,879,138	-	3,885,490	-
KIA Assistance Agreement, 2018	894,450	-	191,901	702,549	195,760
KIA Assistance Agreement, 2018	2,181,636	-	208,426	1,973,210	213,142
KIA Assistance Agreement, 2018	1,243,396	1,370,306	-	2,613,702	-
	65,485,104	61,817,237	4,401,739	122,900,602	4,786,262
Less unamortized bond discount (premium)	150,954	(2,127,032)	14,590	(1,990,668)	-
Total long-term debt obligations	$ 65,334,150	$ 63,944,269	$ 4,387,149	$ 124,891,270	$ 4,786,262

	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
2020	$ 360,000
2021	$ 370,000

The 2012 bonds maturing on December 1, 2025, 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
2020	$ 155,000
2021	$ 160,000
2022	$ 165,000
2023	$ 170,000
2024	$ 175,000
2025	$ 175,000

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	$ 180,000
2027	$ 185,000

The 2012 bonds maturing on December 1, 2029, 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
2028	$ 195,000
2029	$ 200,000

The 2012 bonds maturing on December 1, 2031, 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
2030	$ 205,000
2031	$ 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.

Revenue Bonds Payable – Series 2019

The Series 2019 revenue bonds payable, which are held by the public, consist of Water and Sewer Revenue Bonds in the original amount of $58,470,000 dated June 4, 2019, which bear interest at 3.25% to 5.00%. The bonds are payable in annual installments through June 1, 2049. 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.

The bonds maturing on June 1, 2046, are subject to mandatory redemption on June 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
2045	$ 1,740,000
2046	$ 1,790,000

The bonds maturing on June 1, 2049, are subject to mandatory redemption on June 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
2047	$ 1,855,000
2048	$ 1,895,000
2049	$ 1,955,000

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.

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, 2019, 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, 2019, 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, 2019, are as follows:

Year Ended June 30	Interest	Principal	Total
2020	$ 2,750,259	$ 4,786,262	$ 7,536,521
2021	2,823,971	4,836,318	7,660,289
2022	2,743,200	4,921,917	7,665,117
2023	2,658,224	5,333,650	7,991,874
2024	2,549,851	5,427,796	7,977,647
2025–2029	10,896,728	28,276,001	39,172,729
2030–2034	7,353,120	26,059,993	33,413,113
2035–2039	4,543,572	26,103,665	30,647,237
2040–2044	2,472,281	7,920,000	10,392,281
2045–2049	1,089,700	9,235,000	10,324,700
	$ 39,880,906	$ 122,900,602	$ 162,781,508

Compensated Absences

During the year ended June 30, 2019 and 2018, additions to long-term compensated absences for the Division totaled $35,609 and $54,132, respectively, while deductions totaled $48,996 and $60,261, respectively.

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.

	2019	2018
Balances		
Current note receivable from GSD	$ 605,598	$ 600,000
Long-term note receivable from GSD	$ 1,797,044	$ 2,250,000
Interest receivable from GSD	$ 399,668	$ -
Current receivable from GSD	$ 6,798	$ 4,450
Current receivable from ED	$ 438,810	$ 385,203
Current payable to ED	$ (138,321)	$ (117,515)
Transactions		
Rent income from ED	$ 372,000	$ 372,000
Rent income from GSD	$ 20,160	$ 20,160
Rent expense to ED	$ 39,144	$ -
Utility sales to ED	$ 8,739	$ 6,662
Utility purchases from ED	$ 1,658,899	$ 1,593,355
Utility purchases from GSD	$ 59,133	$ 58,409
Rent income from ED (for computer and radio usage)	$ 44,592	$ 44,592
Interest income from GSD	$ 552,310	$ -

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 but before September 1, 2008.	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 (16.22% and 14.48%) and healthcare benefits (5.26% and 4.70%) for the years ended June 30, 2019 and 2018, was 21.48% and 19.18%, respectively, of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the years ended June 30, 2019 and 2018, contributions to the pension plan from the Division were $991,643 and $856,804.

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

At June 30, 2019 and 2018, the Division reported a liability of $14,350,163 and $14,004,524 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 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 compared to actual total employer contributions for all employers for the same period. At June 30, 2019 and 2018, BGMU's proportion was 0.499230% and 0.507144%, respectively. The Division's proportion of BGMU's net pension liability was based on the Division's share of contributions relative to the contributions of all three divisions of BGMU. The Division's proportion was 48.01% at June 30, 2019, and 47.82% at June 30, 2018.

For the years ended June 30, 2019 and 2018, the Division recognized pension expense of $2,339,255 and $2,476,828. At June 30, 2019 and 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 182,286
Difference between expected and actual experience	475,747	212,242
Change of assumptions	1,412,474	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	164,043	151,402
Division's contributions subsequent to the measurement date	983,243	-
Total	$ 3,035,507	$ 545,930

	2018	
	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, 2019 and 2018, the Division reported $983,243 and $851,808, respectively, as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019 and 2018, related to pensions will be recognized in pension expense as follows:

2020	$ 1,210,325
2021	588,318
2022	(193,641)
2023	(98,668)
	$ 1,506,334

Actuarial Assumptions

The total pension liability in the June 30, 2018, 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, 2018. 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 25 years (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
$ 18,065,369	$ 14,350,163	$ 11,237,471

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, 2019 and 2018, the Division reported a payable of $61,352 and $77,848, respectively, for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2019 and 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 type of service. Participation after July 2003: 10 years of earned service at retirement to be eligible for insurance benefits.	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 (16.22% and 14.48%) and healthcare benefits (5.26% and 4.70%) for the years ended June 30, 2019 and 2018, was 21.48% and 19.18%, respectively, of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the years ended June 30, 2019 and 2018, contributions to the OPEB plan from the Division were $321,581 and $278,106.

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

At June 30, 2019 and 2018, the Division reported a liability of $4,235,943 and $4,875,406 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 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, compared to actual total employer contributions for all employers for the same period. At June 30, 2019 and 2018, BGMU's proportion was 0.499230% and 0.507144%, respectively. 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 48.01% at June 30, 2019, and 47.82% at June 30, 2018.

For the year ended June 30, 2019 and 2018, the Division recognized OPEB expense of $476,744 and $555,571, respectively. At June 30, 2019 and 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 292,192
Difference between expected and actual experience	-	495,847
Change of assumptions	845,635	9,832
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	79,164
Division's contributions subsequent to the measurement date	320,476	-
Total	$ 1,166,111	$ 877,035

	2018	
	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, 2019 and 2018, the Division reported $320,476 and $278,106, respectively 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, 2019, related to OPEB will be recognized in OPEB expense as follows:

2020	$ (214)
2021	(214)
2022	(214)
2023	56,713
2024	(52,297)
Thereafter	(35,174)
	$ (31,400)

Actuarial Assumptions

The total OPEB liability in the June 30, 2018, 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 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
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 5.85% for the year ended June 30, 2018. 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 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. 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 5.85%. 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
$ 5,501,811	$ 4,235,943	$ 3,157,655

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 7.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The post-65 health care trend rate starts at 5.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 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
$ 3,153,701	$ 4,235,943	$ 5,511,594

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, 2019 and 2018, the Division reported a payable of $19,896 and $25,268 for the outstanding amount of contributions to the OPEB plan required for the years ended June 30, 2019 and 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, 2019 and 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)
June 30, 2019				
U.S. Treasury obligations	$ 995,027	$ -	$ 995,027	$ -
Fixed income funds	399,585	399,585	-	-
Negotiable certificates of deposit	989,714	-	989,714	-
	$ 2,384,326	$ 399,585	$ 1,984,741	$ -
June 30, 2018				
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.

BGMU self-insures certain costs related to employee health and accident benefit programs, including the Division’s employees. Medical claims are administered by UMR, Inc. and pharmacy claims are administered by PDMI.

Note 13: Segment Information

Available segment information for the Division for the years ended June 30, 2019 and 2018, follows:

	2019		
	Water	**Sewer**	**Total**
Operating revenues	$ 13,613,614	$ 14,207,887	$ 27,821,501
Operating expenses	$ 12,362,809	$ 11,484,199	$ 23,847,008
Operating income	$ 1,250,805	$ 2,723,688	$ 3,974,493
Increase in net position before capital contributions	$ 975,696	$ 2,590,639	$ 3,566,335

	2018		
	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

Governmental Accounting Standards Board 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 Governmental Accounting Standards Board Statement No. 87 will have on its financial statements.

Note 15: Subsequent Events

Subsequent events have been evaluated through September 30, 2019, which is the date the financial statements were available to be issued.

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

	2019	2018	2017	2016	2015
Division's proportion of the net pension liability	0.2397%	0.2425%	0.2323%	0.2355%	0.2337%
Division's proportionate share of the net pension liability	$ 14,350,163	$ 14,004,524	$ 11,314,915	$ 10,081,994	$ 7,581,385
Division's covered payroll	$ 5,917,157	$ 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	242.52%	238.62%	207.61%	184.54%	132.28%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	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 2019, these assumptions remained unchanged. 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

	2019	2018	2017	2016	2015
Contractually required contribution	$ 991,643	$ 856,804	$ 818,708	$ 676,886	$ 696,561
Contribution in relation to the contractually required contribution	991,643	856,804	818,708	676,886	696,561
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Division's covered payroll	$ 6,113,707	$ 5,917,157	$ 5,868,871	$ 5,449,971	$ 5,463,226
Contributions as a percentage of covered payroll	16.22%	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

	2019	2018
Division's proportion of the net OPEB liability	0.2397%	0.2425%
Division's proportionate share of the net OPEB liability	$ 4,235,943	$ 4,875,406
Division's covered payroll	$ 5,917,157	$ 5,868,871
Division's proportionate share of the net OPEB liability as a percentage of its covered payroll	71.59%	83.07%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	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%. In fiscal year 2019, these assumptions remained unchanged.

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

	2019	2018
Contractually required contribution	$ 321,581	$ 278,106
Contribution in relation to the contractually required contribution	321,581	278,106
Contribution deficiency (excess)	$ -	$ -
Division's covered payroll	$ 6,113,707	$ 5,917,157
Contributions as a percentage of covered payroll	5.26%	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, 2019 and 2018

	2019	2018
Water/Sewer Debt Service Fund		
Investments/cash	$ 4,439,558	$ 1,410,512
Invested Sinking Fund		
Investments/cash	2,461,189	1,203,145
Investment - US Bank		
Investments/cash	1,789,970	-
Water/Sewer Construction Fund		
Investments/cash	56,107,266	-
Water/Sewer Depreciation Fund		
Investments/cash	1,512,261	1,501,838
Maintenance and Replacement Reserve		
Investments/cash	1,301,437	1,106,768
	$ 67,611,681	$ 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
Years Ended June 30, 2019 and 2018

Water Segment

	2019	2018
Operating Revenues		
Metered and unmetered sales	$ 12,927,443	$ 12,509,796
Miscellaneous service revenues	182,580	183,510
Penalties – delinquent accounts	61,382	55,041
Nonutility revenues	442,209	449,246
Total operating revenues	13,613,614	13,197,593
Operating Expenses		
Purification	2,954,671	2,748,245
Distribution	1,812,923	1,509,162
Engineering	614,877	612,698
Customers accounting and collection	582,595	573,554
Administrative and general	3,831,468	3,879,851
Uncollectible accounts	18,623	26,591
Depreciation, excluding vehicles	2,547,652	2,434,520
Total operating expenses	12,362,809	11,784,621
Operating income	1,250,805	1,412,972
Other Income (Expenses)		
Interest income	390,149	46,651
Interest expense	(665,258)	(571,303)
Net other expenses	(275,109)	(524,652)
Increase in Net Position, Before Capital Contributions	$ 975,696	$ 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
Years Ended June 30, 2019 and 2018

Sewer Segment

	2019	2018
Operating Revenues		
Metered and unmetered sales	$ 13,109,899	$ 12,605,810
Industrial sewer surcharges	784,141	665,392
Penalties – delinquent accounts	80,734	72,513
Nonutility revenues	233,113	234,936
Total operating revenues	14,207,887	13,578,651
Operating Expenses		
Customers accounting and collection	575,019	566,061.00
Engineering	464,463	470,845
Sewer plant and disposal	3,976,136	4,221,543
Administrative and general	3,298,007	3,231,508
Uncollectible accounts	26,531	28,408
Depreciation	3,144,043	3,078,805
Total operating expenses	11,484,199	11,597,170
Operating income	2,723,688	1,981,481
Other Income (Expenses)		
Interest income	343,439	21,042
Loss on disposition of utility plant	27,178	(2,315,305)
Interest expense	(503,666)	(537,630.00)
Net other expenses	(133,049)	(2,831,893)
Increase (Decrease) in Net Position, Before Capital Capital Contributions	$ 2,590,639	$ (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
Years Ended June 30, 2019 and 2018

	2019	2018
Purification Expenses		
Supervision and labor	$ 1,142,616	$ 1,094,632
Supplies and expense	67,232	63,363
Chemicals	1,012,261	819,337
Repairs to structure	157,300	142,820
Repairs to equipment	24,213	26,899
Electric power purchased	707,823	617,597
Miscellaneous expense	28,347	27,769
	$ 3,139,792	$ 2,792,417
Distribution Expenses		
Supervision and labor	$ 1,691,298	$ 1,357,576
Repairs to distribution lines	13,849	9,131
Repairs to and changing mains	32,585	44,343
Repairs to service lines	58,393	65,211
Repairs to customer meters	10,359	11,167
Electric power purchased	62,865	60,229
Miscellaneous expense	37,982	33,131
	$ 1,907,331	$ 1,580,788
Engineering Expenses		
Supervision and labor	$ 871,834	$ 853,950
Supplies and expense	10,516	12,398
Transportation	78,421	71,837
Software systems	72,918	97,123
Outside services	45,651	48,235
	$ 1,079,340	$ 1,083,543
Customers Accounting and Collections		
Supervision and labor	$ 749,195	$ 738,262
Supplies and expense	186,621	186,569
Equipment rent and maintenance	221,798	214,784
	$ 1,157,614	$ 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)
Years Ended June 30, 2019 and 2018

	2019	2018
Sewer Plant and Disposal Expenses		
Supervision and labor	$ 1,783,867	$ 1,848,293
Supplies and expense	30,501	40,278
Sludge hauling	641,885	650,601
Chemicals	359,814	431,444
Power purchased	811,808	834,011
Repairs to structure	6,150	8,524
Repairs to equipment	188,067	195,143
Repairs to service lines	47,699	75,779
Repairs to mains	31,022	43,397
Repairs to interceptor lines	53,483	72,887
Miscellaneous expenses	21,840	21,186
	$ 3,976,136	$ 4,221,543
Administrative and General Expenses		
Management and administrative salaries – Water	$ 419,550	$ 416,024
Management and administrative salaries – Sewer	421,163	419,155
Insurance – Water	223,809	215,762
Insurance – Sewer	174,208	162,785
Transportation – Water	5,963	3,680
Transportation – Sewer	4,789	3,680
Other general expense – Water	161,331	169,125
Other general expense – Sewer	161,371	168,136
Payroll taxes – Water	251,600	229,623
Payroll taxes – Sewer	194,424	203,751
Sales Taxes – Water	1,000	-
Sales Taxes – Sewer	1,778	-
Professional services	86,259	155,481
Office rent – ED	-	62
Equipment rent and maintenance	373,709	372,079
Employee benefits – Water	2,289,065	2,311,562
Employee benefits – Sewer	1,828,957	1,926,521
Paying agent fees – Water	159	78
Paying agent fees – Sewer	159	78
Gross receipts tax	250,652	237,979
	$ 6,849,946	$ 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
Years Ended June 30, 2019 and 2018

	2019	2018
2011/2012 Debt Service Fund	$ 2,835	$ 2,766
2019 Debt Service Fund	11,608	-
Interest Income from Note- General Services Division	552,310	-
Invested Sinking Fund – Bonds	26,563	15,292
KIA Waste Water Project Reserve Fund/2004		
Bond Construction Fund	62,569	46,828
Water/Sewer Operating Fund	67,280	2,308
Water/Sewer Depreciation Fund	10,423	499
	$ 733,588	$ 67,693

Water/Sewer Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of Interest Expense
Years Ended June 30, 2019 and 2018

	2019	2018
Interest on long-term debt	$ 1,168,924	$ 1,108,933

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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, 2019, 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, 2019, which contained an emphasis of matter paragraph regarding divisional reporting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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, 2019.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Bowling Green, Kentucky
September 30, 2019

General Services Division of Bowling Green Municipal Utilities

A Component Unit of the City of Bowling Green, Kentucky

Independent Auditor's Reports and Financial Statements

June 30, 2019 and 2018

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General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
June 30, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Bowling Green Municipal Utilities
Bowling Green, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the General Services Division (Division), a Division of Bowling Green Municipal Utilities (BGMU), a component unit of the City of Bowling Green, Kentucky, as of and for the years ended June 30, 2019 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of June 30, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Division are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of BGMU as of June 30, 2019 and 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.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019, 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, 2019

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2019 and 2018

Our discussion and analysis of the General Services Division (Division) of Bowling Green Municipal Utilities' (BGMU) financial performance provides an overview of the Division's financial activities for the fiscal years ended June 30, 2019 and 2018. Please read it in conjunction with the Independent Auditor's Report and the Division's financial statements, which are included. The adoption of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions has not been reflected in the 2017 information included in this management's discussion and analysis.

Financial Highlights

- The Division's total current assets increased by $350,703 or 31.49%.
- The Division's net utility plant increased by $243,426, or 5.45%.
- The Division's total assets and deferred outflows of resources increased $435,216 or 6.70%.
- The Division's net position increased by $328,868.
- The Division's operating revenue increased by $306,228, or 7.66%.
- The Division's net cash provided by operations increased by $267,625.

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 <u>at</u> 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 <u>during</u> 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 <u>during</u> 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, 2019, are Sarah Glenn Grise, Todd Davis (chairman), Steve Snodgrass (secretary), Donna Harmon and Bruce Wilkerson. The members of the Board are appointed by the mayor subject to the approval of the City Commission. Mayor Bruce Wilkerson is the City's representative to the Board.

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

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

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

AT&T, Century Link and Level 3 provide internet connectivity via Gigabit Ethernet connections.

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

At June 30, 2019, the Division has 618 unique customers. Services provided to those customers includes 210 dark fiber connections, 980 lighted fiber connections (including BGMU's other two Divisions), 30 co-location services, 604 small business internet connections and 5,476 phone lines.

The Division has no taxing power. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by capital (cash and systems) contributions from customers, including grants, loans and customer revenues. The Division is the focal point for this management discussion and analysis.

Financial Analysis of the Division as a Whole

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

Condensed Balance Sheets
(Dollars in Thousands)

	June 30			Increase (Decrease) 2018 to 2019	
	2019	2018	2017	$	%
Current and other assets	$ 1,656	$ 1,305	$ 922	$ 351	27%
Utility plant	4,714	4,470	4,469	244	5%
Total assets	6,370	5,775	5,391	595	10%
Deferred outflows of resources	565	725	333	(160)	22%
Total assets and deferred outflows of resources	$ 6,935	$ 6,500	$ 5,724	$ 435	7%
Long-term debt	$ 1,797	$ 2,250	$ 2,850	$ (453)	20%
Long-term liabilities	2,654	2,692	1,565	(38)	1%
Current liabilities	1,237	758	798	479	63%
Total liabilities	5,688	5,700	5,213	(12)	0%
Deferred inflows of resources	218	100	19	118	118%
Net position (deficit)					
Net investment in capital assets	2,311	1,620	1,019	691	43%
Unrestricted	(1,282)	(920)	(527)	(362)	39%
Total net position	1,029	700	492	329	47%
Total liabilities, deferred inflows of resources and net position	$ 6,935	$ 6,500	$ 5,724	$ 435	7%

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2019 and 2018

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

	June 30			Increase (Decrease) 2018 to 2019	
	2019	2018	2017	$	%
Operating revenues					
Fiber optic sales	$ 1,820	$ 1,752	$ 1,647	$ 68	4%
Small business	2,298	2,054	1,898	244	12%
Co-location	99	98	106	1	1%
Installation income	69	79	93	(10)	13%
Forfeited discounts	18	14	21	4	29%
Total operating revenues	4,304	3,997	3,765	307	8%
Other revenues	17	25	15	(8)	32%
Total revenues	4,321	4,022	3,780	299	7%
Operating expenses	3,436	3,301	2,987	135	4%
Other expenses	556	3	10	553	18433%
Total expenses	3,992	3,304	2,997	688	21%
Increase in net position	329	718	783	(389)	54%
Beginning net position (deficit), as previously reported	700	492	(291)	208	42%
Cumulative effect of change in accounting principle	-	(510)	-	510	100%
Beginning net deficit, as restated	700	(18)	(291)	718	3989%
Ending net position	$ 1,029	$ 700	$ 492	$ 329	47%

Condensed Statements of Cash Flows
(Dollars in Thousands)

	June 30			Increase (Decrease) 2018 to 2019	
	2019	2018	2017	$	%
Operating activities					
Cash received from customers	$ 4,332	$ 3,989	$ 3,766	$ 343	9%
Cash paid to employees	(1,168)	(1,075)	(1,037)	(93)	9%
Cash paid to other suppliers	(1,343)	(1,357)	(1,257)	14	1%
Other receipts, net	(19)	(23)	12	4	17%
Net cash provided by operating activities	1,802	1,534	1,484	268	17%
Noncapital financing activities					
merchandising revenue, net	17	12	14	5	42%
Net cash provided by noncapital financing activities	17	12	14	5	42%
Capital and related financing activities					
Payments on long-term debt and capital leases	(447)	(600)	(641)	153	26%
Purchase of capital assets	(834)	(600)	(566)	(234)	39%
Interest paid	(153)	-	(3)	(153)	0%
Proceeds from disposal of assets	-	16	78	(16)	100%
Net cash used in capital and related financing activities	(1,434)	(1,184)	(1,132)	(250)	21%
Investing activities					
Cash paid to joint venture	-	-	(20)	-	0%
Net cash used in investing activities	-	-	(20)	-	0%
Increase in cash	385	362	346	23	6%
Cash, beginning of year	926	564	218	362	64%
Cash, end of year	$ 1,311	$ 926	$ 564	$ 385	42%

Comments Regarding Variances

Balance Sheets

Current assets are $350,703, or 31.49%, greater in 2019 than in 2018 primarily related to an increase in cash.

Long-term liabilities decreased $491,375 or 9.94%, in 2019. The decrease is primarily made up of the decrease in long-term debt due to normal debt payments. Additionally, there was a decrease in net other postemployment benefits liability.

Statements of Revenues, Expenses and Changes in Net Position

The Division's revenues are from fiber optic sales, dark and lighted, small business internet and voice over internet phone, co-location rental and installation services. Fiber optic sales increased by $67,629, or 3.86%. Small business internet and phone revenue increased by $243,704, or 11.86%. Installation revenue decreased by $9,635, or 12.22%.

Operating expenses for the Division totaled $3,436,103 for the year. This reflects an increase from the prior year of $134,967 or 4.09%. Included are three major categories, distribution; which increased by $129,032, or 8.15%, administrative and general, which decreased by $16,212, or 1.44%, and depreciation, which increased by $22,147, or 3.72%. The increase in distribution is primarily driven by payroll classification changes.

The increase in net position for the year was $328,868.

Statements of Cash Flows

Cash flows from operating activities for the current year totaled $1,801,787. This is an increase of $267,625 or 17.44%.

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year, the Division's investment in capital amounted to approximately $4,714,000, which is stated net of approximately $6,597,000 of accumulated depreciation. This investment in capital includes:

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

During 2019, the total net increase in the Division's investment in capital assets was approximately $243,426. Major capital asset events during 2019 include the following:

- Increase to fiber optic system of $189,684 for expansion as needed to accommodate new customers
- A $179,968 increase to miscellaneous network equipment

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

	June 30		
	2019	**2018**	**2017**
Fiber optic system, including design	$ 6,165	$ 5,975	$ 5,729
SONET hardware	773	773	773
Operating systems and buildings	314	312	312
Vehicles	309	284	189
Miscellaneous network equipment	3,183	3,003	2,854
Total plant in service	10,744	10,347	9,857
Accumulated depreciation	6,597	5,997	5,451
	4,147	4,350	4,406
Construction in progress	567	121	63
Net utility plant	$ 4,714	$ 4,471	$ 4,469

Long-Term Debt and Debt Administration

At the end of the fiscal year, the Division had $2,402,642 in debt outstanding to BGMU's Water/Sewer Division, issued during the 2002–2003, 2003–2004 and 2004–2005 fiscal years. The debt was restructured in June 2005 to be interest only at a 4.50% interest rate due annually over the following five years. The debt was re-evaluated in fiscal year 2011 and determined that interest would be suspended and become principal-only debt. The debt was re-evaluated once again in fiscal year 2019 and interest was reinstated. A rate calculation was done that would pay the Water/Sewer Division an amount of interest that would attempt to cover the interest during the suspended period and the remaining life of the note. The new rate was set at 22.70%. Payments made toward principal during the fiscal year totaled $447,358. Interest expense during the fiscal year totaled $552,310. Management 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.

Economic Factors and Rates

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

- The Division's fiber rates were originally set in 2001. A number of factors were considered when setting the rates including cost of the system, operating costs and competition in the market. After about six months of operation, rates were adjusted to allow the Division to be more competitive in the changing Bowling Green market. Management continues to adjust rates as deemed necessary as the market fluctuates.

- Employment costs: health costs continue to rise for BGMU as they do for other employers. In an attempt to find a balance of cost efficiency and employee benefit BGMU moved to a self-insured health insurance plan beginning January 1, 2019.

  Trustees of the Kentucky Retirement Systems, which manages, among others, the pension and post-employment insurance 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 employer CERS non-hazardous rates at that time of 19.18%. 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 24.06% beginning July 1, 2019. The employee contribution remains 5.00%.

- The Division began offering telephone services to small- and medium-sized commercial customers in FY 2009. The telephone service is a Voice-Over-Internet-Protocol (VOIP) based service offered through a competitive local exchange carrier (CLEC) certified wholesale VOIP provider.

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

Fiber optic cable and design of system	$ 113,606
Network equipment – small and large	$ 289,695
Buildings – nodes	$ 201,620

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

- The Division has entered into a joint venture with the WKU Research Foundation, Inc. The purpose is to provide Tier II data center co-location space to customers. At June 30, 2019, the investment in the Lost River Data Center totaled $191,505.

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Management's Discussion and Analysis
Years Ended June 30, 2019 and 2018

Contacting the Division's Financial Management

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

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Balance Sheets
June 30, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets		
Cash	$ 1,311,066	$ 925,948
Accounts receivable – customers, net of allowance; 2019 - $3,674 and 2018 - $3,674	16,834	45,339
Account receivable – Electric Division	41,887	22,860
Inventories	84,573	96,421
Prepaid expenses	10,208	23,297
Total current assets	1,464,568	1,113,865
Utility Plant		
Utility plant in service, at cost	10,743,436	10,346,762
Construction in progress	567,396	120,621
	11,310,832	10,467,383
Accumulated depreciation	(6,596,861)	(5,996,838)
Total utility plant, net	4,713,971	4,470,545
Other Assets	191,505	190,930
Total assets	6,370,044	5,775,340
Deferred Outflows of Resources	565,274	724,762
Total assets and deferred outflows of resources	$ 6,935,318	$ 6,500,102

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Balance Sheets
June 30, 2019 and 2018

Liabilities, Deferred Inflows of Resources and Net Position

	2019	2018
Current Liabilities		
Current maturities of long-term debt	$ 605,598	$ 600,000
Accounts payable	142,443	100,583
Accounts payable ─ Electric Division	-	700
Accounts payable ─ Water/Sewer Division	6,798	4,450
Accrued interest payable ─ Water/Sewer Division	399,668	-
Accrued expenses	83,557	52,002
Total current liabilities	1,238,064	757,735
Noncurrent Liabilities		
Net pension liability	2,008,815	1,956,404
Net other postemployment benefits liability	611,610	708,575
Long-term debt	1,797,044	2,250,000
Other	33,258	27,123
Total noncurrent liabilities	4,450,727	4,942,102
Total liabilities	5,688,791	5,699,837
Deferred Inflows of Resources	217,564	100,170
Net Position (Deficit)		
Net investment in capital assets	2,311,329	1,620,545
Unrestricted	(1,282,366)	(920,450)
Total net position	1,028,963	700,095
Total liabilities, deferred inflows of resources and net position	$ 6,935,318	$ 6,500,102

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Fiber optic sales, net of discounts	$ 1,820,005	$ 1,752,376
Small business – internet and VOIP	2,298,048	2,054,344
Co-location	98,714	97,718
Installation income	69,200	78,835
Forfeited discounts	17,602	14,068
Total operating revenues	4,303,569	3,997,341
Operating Expenses		
Distribution	1,712,116	1,583,084
Administrative and general	1,107,192	1,123,404
Depreciation	616,795	594,648
Total operating expenses	3,436,103	3,301,136
Operating Income	867,466	696,205
Nonoperating Revenue (Expenses)		
Merchandising revenue	17,050	12,039
Interest expense	(552,310)	-
Gain (loss) on disposition of assets	(4,433)	12,590
Gain (loss) from joint venture	575	(2,781)
Other income (loss)	520	318
Net nonoperating revenue (expense)	(538,598)	22,166
Increase in Net Position	328,868	718,371
Net Position , Beginning of Year	700,095	(18,276)
Net Position, End of Year	$ 1,028,963	$ 700,095

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Cash received from customers	$ 4,332,074	$ 3,988,546
Cash paid to employees	(1,168,412)	(1,074,866)
Cash paid to other suppliers	(1,342,854)	(1,356,658)
Other payments, net	(19,021)	(22,860)
Net cash provided by operating activities	1,801,787	1,534,162
Noncapital Financing Activities		
Merchandising revenue, net	17,050	12,039
Capital and Related Financing Activities		
Principal paid on long-term debt	(447,358)	(600,000)
Interest paid on long-term debt	(152,642)	-
Purchase of utility plant	(834,233)	(600,337)
Proceeds from the sale of utility plant	-	15,625
Net cash used in capital and related financing activities	(1,434,233)	(1,184,712)
Investing Activities		
Interest income	514	318
Increase in Cash	385,118	361,807
Cash, Beginning of Year	925,948	564,141
Cash, End of Year	$ 1,311,066	$ 925,948

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Statements of Cash Flows (Continued)
Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 867,466	$ 696,205
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	616,795	594,648
Accounts receivable – customers	28,505	(8,795)
Inventories	11,848	8,301
Prepaid expenses	13,089	(891)
Deferred outflows of resources – pension	133,277	(197,120)
Deferred outflows of resources – other postemployment benefits	26,211	(40,419)
Accounts payable and accrued expenses	50,783	(10,729)
Due from related parties	(19,027)	(22,860)
Net pension liability	52,411	390,899
Net other postemployment benefits liability	(96,965)	80,745
Deferred inflows of resources – pension	23,112	44,178
Deferred inflows of resources – other postemployment benefits	94,282	-
Net cash provided by operating activities	$ 1,801,787	$ 1,534,162
Supplemental Cash Flows Information		
Utility plant and construction in progress in accounts payable	$ 32,369	$ 1,948

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Notes to Financial Statements
June 30, 2019 and 2018

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

Nature of Operations

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

Financial Reporting Division

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

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

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

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

Basis of Accounting and Presentation

The financial statements of the Division have been prepared on the accrual basis of accounting. All activities of the Division are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are: (a) financed and operated in a manner similar to private enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The accounting and financial reporting treatment applied to the Division is determined by its measurement focus. The transactions of the Division are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations are included on the balance sheet.

Use of Estimates

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

Accounts Receivable

Accounts receivable are reported net of an allowance for uncollectible amounts, which has been provided based on management's analysis of historical trends. The Division's operating revenues are recognized on the basis of monthly billings. If payment has not been received on or before the eighth day following the due date of the bill, all services are subject to disconnection. After all internal attempts have been made to collect, accounts are turned over to a collection agency within three months unless a payment agreement is signed. New service is denied until all outstanding balances have been settled.

Inventories

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

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 noncurrent liabilities.

Utility Plant

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

Depreciation

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

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

Capital Asset Impairment

The Division evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss.

No asset impairment was recognized during the years ended June 30, 2019 and 2018.

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 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 outflows of resources are comprised of pension and OPEB items.

Net Position

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

Operating Revenues

The Division recognizes sales revenue based on monthly billings.

Income Taxes

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.

Revisions

Certain immaterial revisions have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. Accrued compensated balances of $27,123 were properly revised to noncurrent liabilities from current liabilities. These revisions and reclassifications had no effect on total assets or net position.

Note 2: Deposits, Investments and Investment Return

Deposits

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

State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kentucky, bonds of any city, county, school district or special road district of the state of Kentucky or a surety bond having an aggregate value at least equal to the amount of the deposits. State law also allows uncollaterized deposits issued by any bank rated in one of the three highest categories by a nationally recognized rating agency.

At June 30, 2019 and 2018, the carrying amounts of the Division's deposits were $1,311,066 and $925,948, respectively, and the bank balances were $1,311,707 and $939,877, respectively, which was covered by federal deposit insurance or by collateral held by the bank's agent in the Division's name.

Investments

The Division may legally invest in direct obligations and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in Kentucky bonds and certificates of indebtedness, highly-rated securities issued by a state or local government in the United States and certain other investments more fully described in Kentucky Revised Statues (KRS). The Division had no investments at June 30, 2019 and 2018.

Summary of Carrying Values

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

	2019	2018
Carrying value		
Cash	$ 1,311,066	$ 925,948

Note 3: Investment in Joint Venture

On September 1, 2011, the Division entered a joint venture agreement with a third party to establish the Lost River Data Center (LRDC), a co-location center offering businesses a secure site to house servers and critical data. The agreement established the initial equity positions based on the parties' contributions with all future profits and losses divided equally. Using the equity method of accounting, the Division's investment in LRDC at June 30, 2019 and 2018, was $191,505 and $190,930, respectively. The Division recognized a gain of $575 during the year ended June 30, 2019 and a loss of $2,781 during the year ended June 30, 2018, for its share of LRDC's gain and loss in the respective years. The Division did not make any contributions during the year ended June 30, 2019 and 2018, respectively.

Note 4: Utility Plant

Utility plant activity for the years ended June 30, 2019 and 2018, were:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Overhead conductors and devices	$ 5,975,197	$ 7,869	$ (6,917)	$ 188,732	$ 6,164,881
Equipment – SONET hardware	772,856	-	-	-	772,856
Structures and improvements, nodes	312,219	1,879	-	-	314,098
Office furniture and equipment	18,405	1,829	-	-	20,234
Transportation equipment	283,405	25,144	-	-	308,549
Testing equipment	84,213	6,196	-	-	90,409
Computer equipment	174,915	2,144	-	-	177,059
Miscellaneous equipment	2,725,552	30,885	(14,288)	153,201	2,895,350
Utility plant in service	10,346,762	75,946	(21,205)	341,933	10,743,436
Construction in progress	120,621	788,708	-	(341,933)	567,396
Total utility plant	10,467,383	864,654	(21,205)	-	11,310,832
Accumulated depreciation	(5,996,838)	(618,342)	18,319	-	(6,596,861)
Utility plant, net	$ 4,470,545	$ 246,312	$ (2,886)	$ -	$ 4,713,971

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Overhead conductors and devices	$ 5,728,980	$ -	$ -	$ 246,217	$ 5,975,197
Equipment – SONET hardware	772,856	-	-	-	772,856
Structures and improvements, nodes	312,219		-	-	312,219
Office furniture and equipment	14,497	3,908	-	-	18,405
Transportation equipment	188,952	128,745	(34,292)	-	283,405
Testing equipment	78,978	5,235	-	-	84,213
Computer equipment	174,915	-	-	-	174,915
Miscellaneous equipment	2,585,999	40,060	(20,680)	120,173	2,725,552
Utility plant in service	9,857,396	177,948	(54,972)	366,390	10,346,762
Construction in progress	63,304	423,707	-	(366,390)	120,621
Total utility plant	9,920,700	601,655	(54,972)	-	10,467,383
Accumulated depreciation	(5,450,861)	(594,648)	48,671	-	(5,996,838)
Utility plant, net	$ 4,469,839	$ 7,007	$ (6,301)	$ -	$ 4,470,545

Note 5: Deferred Outflows of Resources

As of June 30, 2019 and 2018, the deferred outflows of resources consisted of $396,884 and $530,161, respectively, related to pensions (see Note 9), and $168,390 and $194,601, respectively, related to other postemployment benefits liability (see Note 10).

Note 6: Deferred Inflows of Resources

As of June 30, 2019 and 2018, the deferred inflows of resources consisted of $86,183 and $63,071, respectively, related to pensions (see Note 9), and $131,381 and $37,099, respectively, related to other postemployment benefits liability (see Note 10).

Note 7: Long-Term Liabilities

The following is a summary of long-term obligation transactions for the Division for the years ended June 30, 2019 and 2018:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable to WSD	$ 2,850,000	$ -	$ 447,358	$ 2,402,642	$ 605,598

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable to WSD	$ 3,450,000	$ -	$ 600,000	$ 2,850,000	$ 600,000

Payable to Water/Sewer Division

The unsecured note payable to the WSD for the original amount of $5,000,000 has a formal repayment plan as of June 30, 2019. In June of 2019, the Board elected to adopt a plan for a complete repayment of interest to Water/Sewer division and implemented an interest rate of 22.70% retroactive to July 1, 2018. Principal payments on the note payable for the remaining life will be as follows:

2020	$ 605,598
2021	758,313
2022	1,038,731
	$ 2,402,642

Note 8: Related-Party Transactions

BGMU is composed of three Utilities. Shared office facilities were owned by either ED or WSD and charged monthly to the Division. Joint purchases and other routine services are performed by or for the Division. Receivables from and payables to the WSD and ED and other related-party transactions are as follows for the years ended June 30, 2019 and 2018:

	2019	2018
Balances		
Receivable from ED	$ 41,887	$ 22,860
Payable to ED	$ -	$ (700)
Payable to WSD	$ (6,798)	$ (4,450)
Interest payable to WSD	$ (399,668)	$ -
Current payable to WSD	$ 605,598	$ 600,000
Long-term payable to WSD	$ 1,797,044	$ 2,250,000
Transactions		
Office rent expense to ED	$ 27,564	$ 27,564
Office rent expense to WSD	$ 19,200	$ 19,200
Utility sales to ED	$ 107,452	$ 106,363
Utility sales to WSD	$ 59,133	$ 58,409
Utility purchases from ED	$ 27,496	$ 26,164
Utility purchases from WSD	$ 1,229	$ 844
Utility pole rental from ED	$ 64,447	$ 60,580
Rent expense to WSD (computer rental)	$ 960	$ 960

Note 9: 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 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 but before September 1, 2008.	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 (16.22% and 14.48%) and healthcare benefits (5.26% and 4.70%) for the years ended June 30, 2019 and 2018, was 21.48% and 19.18%, respectively, of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the years ended June 30, 2019 and 2018, contributions to the pension plan from the Division were $150,368 and $124,525, respectively.

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

At June 30, 2019 and 2018, the Division reported a liability of $2,008,815 and $1,956,404, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. BGMU's proportion of the net pension liability was based on BGMU's actual total employer contributions compared to actual total employer contributions for all employers for the same period. At June 30, 2019 and 2018, BGMU's proportion was 0.499230% and 0.507144%, respectively. The Division's proportion of BGMU's net pension liability was based on the Division's share of contributions relative to the contributions of all three divisions of BGMU. The Division's proportion was 7.28% at June 30, 2019, and 6.95% at June 30, 2018.

For the years ended June 30, 2019 and 2018, the Division recognized pension expense of $354,713 and $359,974, respectively. At June 30, 2019 and 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 34,538
Difference between expected and actual experience	71,760	29,914
Change of assumptions	194,420	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	23,092	21,731
Division's contributions subsequent to the measurement date	107,612	-
Total	$ 396,884	$ 86,183

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 18,732	$ -
Difference between expected and actual experience	2,244	52,370
Change of assumptions	376,872	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	40,177	10,701
Division's contributions subsequent to the measurement date	92,136	-
Total	$ 530,161	$ 63,071

At June 30, 2019 and 2018, the Division reported $107,612 and $92,136, respectively, as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019 and 2018, related to pensions will be recognized in pension expense as follows:

2020	$ 183,528
2021	89,210
2022	(29,363)
2023	(40,286)
	$ 203,089

Actuarial Assumptions

The total pension liability in the June 30, 2018, 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 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 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, 2018. 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 25 years (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
$ 2,528,890	$ 2,008,815	$ 1,573,083

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, 2019 and 2018, the Division reported a payable of $10,811 and $13,799, respectively, for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2019 and 2018.

Note 10: 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. Participation after July 2003: 10 years of earned service at retirement to be eligible for insurance benefits.	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 (16.22% and 14.48%) and healthcare benefits (5.26% and 4.70%) for the years ended June 30, 2019 and 2018, respectively, was 21.48% and 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 years ended June 30, 2019 and 2018, contributions to the OPEB plan from the Division were $46,843 and $40,419.

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

At June 30, 2019 and 2018, the Division reported a liability of $611,610 and $708,575, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates. BGMU's proportion of the net OPEB liability was based on BGMU's actual total employer contributions compared to actual total employer contributions for all employers for the same period. At June 30, 2019 and 2018, BGMU's proportion was 0.499230% and 0.507144%, respectively. 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 7.28% at June 30, 2019, and 6.95% at June 30, 2018.

For the years ended June 30, 2019 and 2018, the Division recognized OPEB expense of $79,991 and $80,745, respectively. At June 30, 2019 and 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 42,855
Difference between expected and actual experience	-	75,102
Change of assumptions	121,547	1,491
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	11,933
Division's contributions subsequent to the measurement date	46,843	-
Total	$ 168,390	$ 131,381

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 33,487
Difference between expected and actual experience	-	1,968
Change of assumptions	154,182	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,644
Division's contributions subsequent to the measurement date	40,419	-
Total	$ 194,601	$ 37,099

At June 30, 2019 and 2018, the Division reported $46,843 and $40,419, respectively, 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, 2019, related to OPEB will be recognized in OPEB expense as follows:

2020	$	(32)
2021		(32)
2022		(32)
2023		8,600
2024		(7,930)
Thereafter		(10,408)
	$	(9,834)

Actuarial Assumptions

The total OPEB liability in the June 30, 2018, 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 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
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*
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 OPEB liability was 5.85% for the year ended June 30, 2018. 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 25 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 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. 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 5.85%. 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
$ 794,383	$ 611,610	$ 455,921

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 7.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The post-65 health care trend rate starts at 5.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 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
$ 455,350	$ 611,610	$ 795,796

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, 2019 and 2018, the Division reported a payable of $3,506 and $4,479, respectively, for the outstanding amount of contributions to the OPEB plan required for the years ended June 30, 2019 and 2018.

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.

BGMU self-insures certain costs related to employee health and accident benefit programs, including the Division's employees. Medical claims are administered by UMR, Inc. and pharmacy claims are administered by PDMI.

Note 13: Future Change in Accounting Principle

Governmental Accounting Standards Board (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.

Note 14: Subsequent Events

Subsequent events have been evaluated through September 30, 2019, which is the date the financial statements were available to be issued.

Required Supplementary Information

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of the Division's Proportionate Share of the Net Pension Liability
County Employees Retirement System of the State of Kentucky
Last 10 Fiscal Years

	2019	2018	2017	2016	2015
Division's proportion of the net pension liability	0.0363%	0.0352%	0.0325%	0.0333%	0.0320%
Division's proportionate share of the net pension liability	$ 2,008,815	$ 1,956,404	$ 1,565,505	$ 1,393,005	$ 1,039,410
Division's covered payroll	$ 859,980	$ 821,123	$ 770,645	$ 749,009	$ 785,750
Division's proportionate share of the net pension liability as a percentage of its covered payroll	233.59%	238.26%	203.14%	185.98%	132.28%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	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 2019, these assumptions remained unchanged. 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.

General Services 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

	2019	2018	2017	2016	2015
Contractually required contribution	$ 150,368	$ 124,525	$ 114,547	$ 95,714	$ 95,499
Contribution in relation to the contractually required contribution	150,368	124,525	114,547	95,714	95,499
Contribution deficiency	$ -	$ -	$ -	$ -	$ -
Division's covered payroll	$ 927,052	$ 859,980	$ 821,123	$ 770,645	$ 749,009
Contributions as a percentage of covered payroll	16.22%	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 available.

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

General Services Division
of Bowling Green Municipal Utilities
A Component Unit of the City of Bowling Green, Kentucky
Schedule of the Division's Proportionate Share of the Net OPEB Liability
County Employees Retirement System of the State of Kentucky
Last 10 Fiscal Years

	2019	2018
Division's proportion of the net OPEB liability	0.0363%	0.0352%
Division's proportionate share of the net OPEB liability	$ 611,610	$ 708,575
Division's covered payroll	$ 859,980	$ 821,123
Division's proportionate share of the net OPEB liability as a percentage of its covered payroll	71.12%	86.29%
Plan fiduciary net OPEB as a percentage of the total OPEB liability	57.62%	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%. In fiscal year 2019, these assumptions remained unchanged.

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.

General Services 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

	2019	2018
Contractually required contribution	$ 46,843	$ 40,419
Contribution in relation to the contractually required contribution	46,843	40,419
Contribution deficiency	$ -	$ -
Division's covered payroll	$ 927,052	$ 859,980
Contributions as a percentage of covered payroll	5.05%	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.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
Bowling Green Municipal Utilities
Bowling Green, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the General Services Division (Division), a division of Bowling Green Municipal Utilities, which is a component unit of the City of Bowling Green, Kentucky, which comprise the balance sheet as of June 30, 2019, 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, 2019, which contained an emphasis of matter paragraph regarding divisional reporting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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, 2019.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Bowling Green, Kentucky
September 30, 2019