

**ELECTRIC PLANT BOARD OF THE  
CITY OF VANCEBURG, KENTUCKY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2019**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

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## INDEPENDENT AUDITOR'S REPORT

Board Members  
Electric Plant Board of the  
City of Vanceburg  
Vanceburg, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Electric Plant Board of the City of Vanceburg, Kentucky, a component unit of the City of Vanceburg, Kentucky, (the "Board") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Board'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Electric Plant Board of the City of Vanceburg, Kentucky as of June 30, 2019, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of the Board's Proportionate Share of the Net Pension and OPEB Liability and the Schedule of Pension and OPEB Contributions on pages 27 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency in 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.

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2019, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

*Kelley Galloway Smith Goolsby, PSC*

Ashland, Kentucky  
September 6, 2019

**ELECTRIC PLANT BOARD  
OF THE CITY OF VANCEBURG  
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
JUNE 30, 2019**

<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Electric Fund</u>	<u>Gas, Water and Sewer Fund</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current assets-</b>			
<b>Unrestricted:</b>			
Cash	\$ 1,962,479	\$ 85,066	\$ 2,047,545
Customer accounts receivable, net	801,594	261,354	1,062,948
Other accounts receivable	539,637	-	539,637
Interfund receivables	1,392,276	-	1,392,276
Accrued interest receivable	1,740	-	1,740
Prepays	-	-	-
Supplies inventories	304,711	83,277	387,988
Total unrestricted current assets	<u>5,002,437</u>	<u>429,697</u>	<u>5,432,134</u>
<b>Restricted:</b>			
Cash	2,223,644	1,306,399	3,530,043
Total restricted current assets	<u>2,223,644</u>	<u>1,306,399</u>	<u>3,530,043</u>
Total current assets	<u>7,226,081</u>	<u>1,736,096</u>	<u>8,962,177</u>
<b>Capital assets:</b>			
Land	36,134	192,486	228,620
Structures and improvements	742,615	224,456	967,071
Utility plant	10,784,220	23,956,713	34,740,933
Machinery and equipment	1,802,077	1,098,217	2,900,294
Construction in progress	-	142,500	142,500
	<u>13,365,046</u>	<u>25,614,372</u>	<u>38,979,418</u>
Less: Accumulated depreciation	<u>(7,258,988)</u>	<u>(11,149,085)</u>	<u>(18,408,073)</u>
Capital assets, net	<u>6,106,058</u>	<u>14,465,287</u>	<u>20,571,345</u>
Total assets	<u>13,332,139</u>	<u>16,201,383</u>	<u>29,533,522</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension related	248,592	291,364	539,956
Deferred OPEB related	81,499	95,522	177,021
Total deferred outflows of resources	<u>330,091</u>	<u>386,886</u>	<u>716,977</u>
Total assets and deferred outflows of resources	<u>\$ 13,662,230</u>	<u>\$ 16,588,269</u>	<u>\$ 30,250,499</u>

**ELECTRIC PLANT BOARD  
OF THE CITY OF VANCEBURG  
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS (CONCLUDED)  
JUNE 30, 2019**

<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Electric Fund</u>	<u>Gas, Water and Sewer Fund</u>	<u>Total</u>
<b>LIABILITIES</b>			
<b>Current liabilities-</b>			
<b>Unrestricted:</b>			
(payable from current assets)			
Accounts payable	\$ 376,037	\$ 49,285	\$ 425,322
Accrued payroll and payroll items	68,440	85,755	154,195
Interfund payable	-	1,392,276	1,392,276
Other accrued liabilities	44,611	3,794	48,405
Total unrestricted current liabilities			
(payable from current assets)	<u>489,088</u>	<u>1,531,110</u>	<u>2,020,198</u>
<b>Restricted:</b>			
(payable from restricted assets)			
Customer deposits	-	142,796	142,796
Accrued interest payable	6,129	25,566	31,695
Current portion of long-term debt obligations	217,083	280,027	497,110
Total restricted current liabilities			
(payable from restricted assets)	<u>223,212</u>	<u>448,389</u>	<u>671,601</u>
Total current liabilities	<u>712,300</u>	<u>1,979,499</u>	<u>2,691,799</u>
Long-term debt obligations, less current portion, net of discount	2,408,334	5,096,844	7,505,178
Net pension liability	1,080,716	1,049,977	2,130,693
Net OPEB liability	316,434	304,700	621,134
Total non-current liabilities	<u>3,805,484</u>	<u>6,451,521</u>	<u>10,257,005</u>
Total liabilities	<u>4,517,784</u>	<u>8,431,020</u>	<u>12,948,804</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension related	79,542	93,227	172,769
Deferred OPEB related	57,253	67,103	124,356
Total deferred inflows of resources	<u>136,795</u>	<u>160,330</u>	<u>297,125</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,480,641	9,088,416	12,569,057
Restricted for debt retirement	2,191,693	1,208,491	3,400,184
Restricted for other purposes	25,822	72,342	98,164
Unrestricted	3,309,495	(2,372,330)	937,165
Total net position	<u>9,007,651</u>	<u>7,996,919</u>	<u>17,004,570</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 13,662,230</u>	<u>\$ 16,588,269</u>	<u>\$ 30,250,499</u>

The accompanying notes to financial statements  
are an integral part of this statement.

**ELECTRIC PLANT BOARD  
OF THE CITY OF VANCEBURG  
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET POSITION - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019**

	Business-Type Activities - Enterprise Funds		
	Electric Fund	Gas, Water and Sewer Fund	Total
<b>OPERATING REVENUES</b>			
Sales of light and power	\$ 7,326,989	\$ -	\$ 7,326,989
Sales of gas, water and sewer	-	2,371,554	2,371,554
Total operating revenues	7,326,989	2,371,554	9,698,543
<b>OPERATING EXPENSES</b>			
Cost of purchased power	4,799,888	-	4,799,888
Cost of purchased natural gas	-	598,967	598,967
Maintenance, operations and administration	1,452,369	1,615,781	3,068,150
Depreciation	238,624	589,876	828,500
Total operating expenses	6,490,881	2,804,624	9,295,505
Operating income (loss)	836,108	(433,070)	403,038
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	12,126	3,347	15,473
Interest expense	(76,058)	(145,421)	(221,479)
Capital grants	-	12,500	12,500
Fiduciary fees	(7,193)	-	(7,193)
Total non-operating income (expense)	(71,125)	(129,574)	(200,699)
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	764,983	(562,644)	202,339
Capital contributions	-	9,500	9,500
Transfers Out	(310,800)	(139,440)	(450,240)
<b>CHANGE IN NET POSITION</b>	454,183	(692,584)	(238,401)
<b>NET POSITION, JUNE 30, 2018</b>	8,553,468	8,689,503	17,242,971
<b>NET POSITION, JUNE 30, 2019</b>	\$ 9,007,651	\$ 7,996,919	\$ 17,004,570

The accompanying notes to financial statements  
are an integral part of this statement.

**ELECTRIC PLANT BOARD  
OF THE CITY OF VANCEBURG  
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Gas, Water and Sewer Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 7,250,251	\$ 2,360,766	\$ 9,611,017
Payments to suppliers	(6,134,308)	(1,245,916)	(7,380,224)
Payments to employees	(352,510)	(460,611)	(813,121)
Net cash provided by operating activities	763,433	654,239	1,417,672
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Transfers out	(310,800)	(139,440)	(450,240)
Net cash used in non-capital financing activities	(310,800)	(139,440)	(450,240)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from long-term debt	-	-	-
Principal payments on long-term debt	(215,000)	(274,251)	(489,251)
Interest payments	(76,416)	(144,977)	(221,393)
Fiduciary fees	(7,193)	-	(7,193)
Capital purchases	(77,156)	(248,188)	(325,344)
Capital contributions	-	22,000	22,000
Net cash used in capital and related financing activities	(375,765)	(645,416)	(1,021,181)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	11,903	3,347	15,250
Net cash provided by investing activities	11,903	3,347	15,250
Increase (decrease) in cash and cash equivalents	88,771	(127,270)	(38,499)
Cash and cash equivalents, June 30, 2018	4,097,352	1,518,735	5,616,087
Cash and cash equivalents, June 30, 2019	\$ 4,186,123	\$ 1,391,465	\$ 5,577,588



**ELECTRIC PLANT BOARD  
OF THE CITY OF VANCEBURG  
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Electric Fund</u>	<u>Gas, Water and Sewer Fund</u>	<u>Total</u>
Reconciliations of operating loss to net cash provided by (used in) operating activities -			
Operating income (loss)	\$ 836,108	\$ (433,070)	\$ 403,038
Adjustment to reconcile operating loss to net cash provided by (used in) operating activities -			
Depreciation	238,624	589,876	828,500
Net pension adjustment	99,730	72,703	172,433
Net OPEB adjustment	14,825	2,624	17,449
Changes in assets and liabilities -			
Customer accounts receivable	68,755	(12,738)	56,017
Other accounts receivable	(145,493)	-	(145,493)
Interfund receivable	(354,229)	-	(354,229)
Prepaid insurance	-	-	-
Supplies inventories	14,995	8,664	23,659
Accounts payable	(28,686)	25,791	(2,895)
Interfund payable	-	354,229	354,229
Accrued payroll and payroll liabilities	22,347	43,957	66,304
Other accrued liabilities	(3,543)	253	(3,290)
Deposits	-	1,950	1,950
Total adjustments	<u>(72,675)</u>	<u>1,087,309</u>	<u>1,014,634</u>
Net cash provided by operating activities	<u>\$ 763,433</u>	<u>\$ 654,239</u>	<u>\$ 1,417,672</u>
Reconciliation of cash:			
Cash	\$ 1,962,479	\$ 85,066	\$ 2,047,545
Restricted cash	2,223,644	1,306,399	3,530,043
Total cash and cash equivalents	<u>\$ 4,186,123</u>	<u>\$ 1,391,465</u>	<u>\$ 5,577,588</u>

The accompanying notes to financial statements  
are an integral part of this statement.

**ELECTRIC PLANT BOARD  
OF THE CITY OF VANCEBURG  
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Electric Plant Board of the City of Vanceburg, Kentucky (the “Board”), a discretely presented component unit of the City of Vanceburg, Kentucky is presented to assist in understanding the Board’s financial statements. The financial statements and notes are representations of the Board’s management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

**Reporting Entity**

The Board was created pursuant to an ordinance adopted by the City Council of the City of Vanceburg, Kentucky (“City”) on July 11, 1939. The Board was reorganized by additional ordinances dated February 4, 1964 and July 1, 1995, and provides electric, water, gas and sewer services to the Citizens of Vanceburg, Kentucky and surrounding areas. The Board is a component unit of the City, and as such, the City is the primary government in whose financial reporting entity the Board is included.

**Basic Financial Statements**

Basic financial statements consist of the following:

- Fund financial statements and
- Notes to the basic financial statements.

**Measurement Focus Basis of Accounting and Financial Statement Presentation**

The account classification structures used by the Board conform to accounting principles generally accepted in the United States of American consistent with governmental enterprise fund accounting. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The accounts of the Board are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The Board reports the following major proprietary funds:

- The Electric Fund accounts for the activities of providing electric service to the citizens of the City and surrounding areas.
- The Gas, Water and Sewer Fund accounts for the activities of providing gas, water and sewer service to the citizens of the City and surrounding areas.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales

and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## **Assets, Liabilities and Net Position**

### **Cash and Investments**

In accordance with state requirements, the Board has adopted an investment policy that, among other things, authorizes types and concentrations of investments and maximum investment terms.

Authorized investments include:

- Securities of the U.S. government or its agencies
- Certificates of deposits (or time deposits) placed with commercial banks and/or savings and loan associations
- Shares of money market funds.

Investments in certificates of deposits are stated at cost, which approximates market value. For purposes of the statement of cash flows, the Board has defined cash and cash equivalents to be change and petty cash funds, checking accounts, time deposits, and certificates of deposits.

### **Receivable and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as *interfund receivables/interfund payables*, i.e., the current portion of interfund loans, or *advances to/from other funds*, and the noncurrent portion of interfund loans. All other outstanding balances between funds are reported as *interfund receivables/interfund payables*.

The Board's employees read meters to measure customer consumption of electric, gas, sewer and water in the middle of the month. Estimates for unbilled receivables were based on consumption for the meter reading period immediately following the year end. This usage was prorated for the number of days within the fiscal year and multiplied by the appropriate rates. The allowance for doubtful accounts is estimated using accounts receivable past due more than 60 days.

All customer receivables are shown net of an allowance for uncollectible accounts and estimated refunds due. As of June 30, 2019 the allowance for uncollectible accounts was \$100,000.

Unbilled service receivables are not accrued at year-end.

### **Inventories**

All materials and supplies inventories are valued at cost using the average-cost method.

### **Restricted Assets**

Certain proceeds of the Board's bond obligations, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. In the absence of specific statutory provisions governing the issuance of bonds, these bond monies may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the Board's general investment policy. In no instance have additional types of investments been authorized that are not permitted by the Board's general investment policy.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as needed.

## Capital Assets

Capital assets, which include land, structures, and improvements, equipment, and utility plant are reported in the financial statements. Such assets are recorded at historical cost. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend assets lives are not capitalized and are expensed currently.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Board are depreciated using a straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and improvements	20-50
Utility plant	10-50
Machinery and equipment	05-10

Depreciation expense charged to operations during the year ended June 30, 2019 was \$828,500.

## Long-Term Liabilities

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund type statement of net position. Initial issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

## Interest Expense

Interest expense incurred during the construction of financed projects is capitalized during the construction period. There was no capitalized interest recorded for the year ended June 30, 2019. Current year interest expense was \$221,479.

## Encumbrances

The Board does not use a system of encumbrances in their accounting and reporting methods.

## Capital Grants/Contributions

Grants that are restricted to the purchase of property, plant and equipment are recorded as other income, per GASB 33. The Board received capital grants of \$12,500 for the year ended June 30, 2019.

Gas, water and sewer tap fees are also recorded as capital contribution income, per GASB 33. These fees represent the increased value in property, plant and equipment resulting from the addition of customers to the utility distribution systems. The total amount of tap fees was \$9,500 for the year ended June 30, 2019.

## Net Position and Fund Equity

In the proprietary funds financial statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets represents capital assets less accumulated depreciation less outstanding principal of related debt. Net investment in capital assets does not include the unspent proceeds of capital debt. Restricted net position represents net position restricted by parties outside of the Board (such as creditors, grantors, contributors, laws, and regulations of other governments) and includes unspent proceeds of bonds issued to acquire or construct capital assets. The Board's other restricted net position is temporarily restricted (ultimately expendable) assets. All other net position is considered unrestricted.

## **Bond Issuance Costs**

GASB 65 requires that debt issuance costs be expensed in the period they are incurred. There were no bond issuance costs for the year ended June 30, 2019.

## **Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

## **Pension and Other Post-Employment Benefits (OPEB)**

For purposes of measuring the net pension and OPEB liability, deferred outflows of resources, and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the pension and OPEB plan's fiduciary net position 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. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **Use of Estimates**

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts reported in the basic financial statements and accompanying disclosures. Actual results could differ from those estimates.

## **Recent Accounting Pronouncements**

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Early application is permitted. Management is currently evaluating the impact of this Statement on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ("GASB 88"), which seeks to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, while providing financial statement users with additional essential information concerning debt. In particular, GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may

be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date that the contractual obligation is established, and it clarifies which liabilities governments should include when disclosing information related to debt. Furthermore, this Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including (1) unused lines of credit; (2) assets pledged as collateral for the debt; and (3) terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. GASB 88 will be effective for the Board beginning with its year ending June 30, 2019. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (“GASB 89”), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and, thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for the Board beginning with its year ending June 30, 2021. Management is currently evaluating the impact of this Statement on its financial statements.

## (2) DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Board’s deposits may not be returned, or the Board will not be able to recover collateral securities in the possession of an outside party. The Board’s policies for deposits and investments are based on statutes and are summarized below.

Kentucky Revised Statute 66.480 authorizes the Board to invest in obligations of the United States and its agencies; certificates of deposit or interest-bearing accounts at banks or savings and loan institutions insured by the FDIC; uncollateralized certificates of deposit, bankers acceptances, or commercial paper issued by any bank or savings and loan institution rated in the highest three categories by a nationally recognized rating agency; bonds or certificates of indebtedness of the Commonwealth of Kentucky and its agencies; securities issued by a state or local government or their agencies rated in the highest three categories by a nationally recognized rating agency; and shares in mutual funds under certain conditions.

At June 30, 2019, the carrying amount of the Board’s deposits with financial institutions, including petty cash, was \$5,577,588, and the bank balance was \$5,676,102. Of the bank balance, \$750,000 was covered by federal depository insurance, \$2,926,102 was collateralized by securities held by the pledging financial institution’s trust department or agent in the board’s name, and \$2,000,000 was collateralized by a letter of credit in the bank’s name with another independent bank with the Board listed as the Beneficiary.

## (3) CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2019 were as follows:

	Balance			Balance
	June 30, 2018	Additions	Deletions	June 30, 2019
Nondepreciable assets:				
Land	\$ 228,620	\$ -	\$ -	\$ 228,620
Construction in progress	-	142,500	-	142,500
Total	<u>228,620</u>	<u>142,500</u>	<u>-</u>	<u>371,120</u>

Depreciable assets:				
Structures and improvements	967,071	-	-	967,071
Utility plant	34,740,933	-	-	34,740,933
Machinery and equipment	<u>2,767,898</u>	<u>182,844</u>	<u>50,448</u>	<u>2,900,294</u>
Total	<u>38,475,902</u>	<u>182,844</u>	<u>50,448</u>	<u>38,608,298</u>
Total capital assets	<u>38,704,522</u>	<u>325,344</u>	<u>50,448</u>	<u>38,979,418</u>
Less: accumulated depreciation for:				
Structures and improvements	(298,562)	(29,252)	-	(327,814)
Utility plant	(14,628,140)	(758,032)	-	(15,386,182)
Machinery and equipment	<u>(2,703,319)</u>	<u>(41,216)</u>	<u>(50,448)</u>	<u>(2,694,087)</u>
Total accumulated depreciation	<u>(17,630,021)</u>	<u>(828,500)</u>	<u>(50,448)</u>	<u>(18,408,073)</u>
Capital assets, net	<u>\$ 21,074,501</u>	<u>\$ (503,156)</u>	<u>\$ -</u>	<u>\$ 20,571,345</u>

Depreciation expense was charged to operations as follows:

Electric Fund	\$ 238,624
Gas, Water and Sewer fund	<u>589,876</u>
	<u>\$ 828,500</u>

#### (4) TRANSFERS

Payments in lieu of taxes and other payments as permitted by KRS 96.810 by the Electric Fund and the Gas, Water and Sewer Fund have been classified in the Statement of Revenue, Expenses and Changes in Net Position - Proprietary Funds as transfers from these funds to the City as follows:

Electric fund	\$ 310,800
Gas, water and sewer fund	<u>139,440</u>
	<u>\$ 450,240</u>

#### (5) LONG-TERM DEBT

The following is a summary of changes in long-term liabilities reported in financial statements for the year ended June 30, 2019:

	<u>Beginning Balance</u>	<u>Additional Proceeds</u>	<u>Reductions/ Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Gas, water and sewer fund	<u>\$ 3,699,083</u>	<u>\$ -</u>	<u>\$ 148,000</u>	<u>\$ 3,551,083</u>	<u>\$ 152,083</u>
Less: Discounts on bonds	<u>(32,995)</u>	<u>-</u>	<u>(1,528)</u>	<u>(31,467)</u>	<u>-</u>
	<u>3,666,088</u>	<u>-</u>	<u>146,472</u>	<u>3,519,616</u>	<u>152,083</u>
Loans payable:					
Electric fund	2,840,417	-	215,000	2,625,417	217,083
Gas, water and sewer fund	<u>1,983,506</u>	<u>-</u>	<u>126,251</u>	<u>1,857,255</u>	<u>127,944</u>
	<u>4,823,923</u>	<u>-</u>	<u>341,251</u>	<u>4,482,672</u>	<u>345,027</u>
Total long-term liabilities	<u>\$ 8,490,011</u>	<u>\$ -</u>	<u>\$ 487,723</u>	<u>\$ 8,002,288</u>	<u>\$ 497,110</u>

#### Bonds Payable

At June 30, 2019, bonds payable consisted of the following water and sewer revenue bonds:

<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
01/21/2000	01/01/2039	3.25	\$ 469,000	\$ 338,000
02/14/2001	01/01/2040	3.25	1,008,000	701,000
11/20/2014	02/01/2040	2.00-3.75	2,980,000	2,512,083
			<u>\$ 4,457,000</u>	<u>\$ 3,551,083</u>

The November 20, 2014 bond issue was sold at a discount of \$38,474. This amount is being amortized over the life of the bond.

Debt service requirements to maturity for the water and sewer revenue bonds to be paid from future water and sewer revenues are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 152,083	\$ 115,760	\$ 267,843
2021	155,000	111,781	266,781
2022	160,083	107,043	267,126
2023	165,083	102,145	267,228
2024	170,000	97,098	267,098
2025 - 2029	933,417	404,344	1,337,761
2030 - 2034	905,167	250,540	1,155,707
2035 - 2039	807,917	105,317	913,234
2040	102,333	3,618	105,951
	<u>\$ 3,551,083</u>	<u>\$ 1,297,646</u>	<u>\$ 4,848,729</u>

Under the provisions of the Bond Ordinances authorizing the 2000 and 2001 bonds, the Board is required to maintain a bond sinking fund that requires monthly deposits of sufficient amounts to fund annual principal and interest requirements in advance. The ordinance further requires a depreciation fund requiring monthly deposits. This fund has a balance of \$162,993 at June 30, 2019.

The Bond Ordinances also require that the system shall charge such rates and charges for all services and facilities rendered by the Board, which rates and charges shall be reasonable and just, taking into account and consideration the cost and value of the System, including all extensions, additions and improvement thereto, the cost of maintaining, repairing and operating the same and the amounts necessary for the retirement of all bonds and the accruing interest on all bonds.

The Bond Ordinances further require that the Board shall not reduce the rates and charges for the services rendered by the Board without first filing with the City Clerk, a certification from an independent Consulting Engineer to the effect that the annual net revenues (defined as gross revenues less current expenses) of the then existing Board for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues of the Board anticipated to result from any such proposed rate decrease, are equal to not less than 120% of the annual debt service requirements for principal and interest on all of the then Outstanding Bonds payable from the revenues of the Board.

### **Loans Payable**

At June 30, 2019 loans payable were as follows:

Kentucky Bond Corporation - In July 2012, a variable rate financing lease payable was obtained to refinance certain electric utility improvements. The loan was in the amount of \$4,165,000 and for a term of 17.5 years. The interest rate on the loan varies from 2.00% to 3.15%. At June 30, 2019, the outstanding balance on the loan was \$2,625,417. Debt service requirements to maturity are as follows:



<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 217,083	\$ 78,772	\$ 295,855
2021	224,167	73,773	297,940
2022	234,167	68,281	302,448
2023	237,917	62,110	300,027
2024	239,167	55,445	294,612
2025 - 2029	1,306,667	160,802	1,467,469
2030 - 2032	166,249	5,902	172,151
	<u>\$ 2,625,417</u>	<u>\$ 505,085</u>	<u>\$ 3,130,502</u>

Buffalo Trace Area Development - In January 2011, a fixed rate note payable was obtained to finance certain electric, gas, water and sewer equipment and improvements, and is secured by such equipment and improvements. The loan was in the amount of \$120,000 and for a term of 10 years. The interest rate on the loan is 4.00%. At June 30, 2019, the outstanding balance of the loan was \$21,812. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 13,973	\$ 707	\$ 14,680
2021	7,839	143	7,982
	<u>\$ 21,812</u>	<u>\$ 850</u>	<u>\$ 22,662</u>

Kentucky Infrastructure Authority Project A11-06 - On August 31, 2012, the City of Vanceburg for the benefit of the Vanceburg Electric Plant Board entered into a Clean Water SRF construction loan in the amount of \$2,000,000 for the CSO Renovation project. Funding will be utilized for the first phase of a two phase project to eliminate sewer over flows from the sanitary sewer system. The term of the loan is 20 years. The interest rate is fixed at 1%. The terms state that 30% of the total principal balance (or \$600,000) will be forgiven. The terms of the loan state conditions that must be met by the Board, one of which being a schedule of rate increases for sewer and water rates through 2014. As part of the loan underwriting the Board is to make an annual deposit on December 1<sup>st</sup> into a replacement cost account that the Board maintains in the amount of \$5,000 until the balance reaches \$50,000; the Board has funded the full \$50,000 upfront. At June 30, 2019, the Board had \$1,047,505 (net of grant forgiveness of \$600,000) borrowed from the Kentucky Infrastructure Authority at 1%. Debt service requirements to maturity are as follows (subject to change with additional draws):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 67,479	\$ 10,307	\$ 77,786
2021	68,156	9,630	77,786
2022	68,839	8,947	77,786
2023	69,529	8,257	77,786
2024	70,226	7,560	77,786
2025 - 2029	361,832	27,097	388,929
2030 - 2034	341,444	8,593	350,037
	<u>\$ 1,047,505</u>	<u>\$ 80,391</u>	<u>\$ 1,127,896</u>

Kentucky Infrastructure Authority Project F13-032 - On October 1, 2013, the City of Vanceburg for the benefit of the Vanceburg Electric Plant Board entered into a Clean Water construction loan in the amount of \$850,000 for drinking water supply project. Funding will be utilized for the construction of a new raw water production well and SCADA system and the installation of approximately 1,550 radio read meters. The well will enhance the water supply for the city and facilitate the future proposed interconnection of the area water systems. The radio read meters will be installed at rural customer locations that do not have other city utility services. The terms of the loan are undetermined. The interest rate is fixed at 0.75%. The terms state that 25% of the total principal balance (or \$212,500) will be forgiven. The terms of the loan state conditions that must be met by the Board, one of which being a schedule of rate increases for sewer and water rates through 2014. As part of the loan underwriting the Board is to make an annual deposit on December 1<sup>st</sup> into a replacement cost account that the Board maintains in the amount of \$2,100 until the balance reaches \$21,000; the Board has funded the full \$21,000 upfront. At June 30, 2019 the Board had \$502,195 (net of grant forgiveness of \$212,470) borrowed from the Kentucky Infrastructure Authority at 0.75%. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 30,671	\$ 3,709	\$ 34,380
2021	30,901	3,479	34,380
2022	31,134	3,246	34,380
2023	31,368	3,012	34,380
2024	31,603	2,777	34,380
2025 - 2029	161,614	10,286	171,900
2030 - 2034	167,778	4,122	171,900
2035	17,126	64	17,190
	<u>\$ 502,195</u>	<u>\$ 30,695</u>	<u>\$ 532,890</u>

Kentucky Infrastructure Authority Project A14-002 - On April 3, 2014, the City of Vanceburg for the benefit of the Vanceburg Electric Plant Board was approved by the KIA for a new \$665,000 loan. Funding will be utilized for the Wastewater Treatment Plan Rehabilitation project. The project involves replacement of various components including influent flow meter, chart recorder, auto refrigerated composite sampler blowers, motors, control panel, and sewage pump. The clarifier will be repaired. Modifications will be made to the grit removal system and new chlorine, sulfur dioxide feeds and a new sludge drying bed will also be added. Repair or replacement of 660 linear feet of 12 inch sewer lines will be made to correct inflow and infiltration issues. Terms of the loan have not been determined. As part of the loan underwriting the Board is to make an annual deposit on December 1<sup>st</sup> into a replacement cost account that the Board maintains in the amount of \$1,700 until the balance reaches \$17,000; the Board has funded the full \$17,000 upfront. At June 30, 2019, the Board had \$285,743 (net of grant forgiveness of \$340,829) borrowed from Kentucky Infrastructure Authority at 0.75%. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 15,821	\$ 2,113	\$ 17,934
2021	15,940	1,995	17,935
2022	16,059	1,875	17,934
2023	16,180	1,754	17,934
2024	16,302	1,633	17,935
2025 - 2029	83,364	6,307	89,671
2030 - 2034	86,543	3,128	89,671
2035 - 2036	35,534	334	35,868
	<u>\$ 285,743</u>	<u>\$ 19,139</u>	<u>\$ 304,882</u>

## (6) PENSION PLAN

### County Employees Retirement System

*Plan description:* Substantially all full-time classified employees of the Board participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

*Benefits provided:* Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

*Contributions:* Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members

who contribute 21.48% (16.22% - pension, 5.26% - insurance) of the member's salary. During the year ending June 30, 2019, the Board contributed \$163,149 to the CERS pension plan and \$52,971 to the CERS medical insurance plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At June 30, 2019, the Board reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. The Board's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2018. At June 30 2018, the Board's proportion was 0.034985%.

For the year ended June 30, 2019, the Board recognized pension expense of \$375,734. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 69,497	\$ 31,189
Changes of assumptions	208,231	-
Net difference between projected and actual earnings on pension plan investments	99,079	124,627
Changes in proportion and differences between Board contributions and proportionate share of Contributions	-	16,953
Board contributions subsequent to the measurement date	163,149	-
Total	<u>\$ 539,956</u>	<u>\$ 172,769</u>

At June 30, 2019, the Board reported deferred outflows of resources for Board contributions subsequent to the measurement date of \$163,149. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These amounts will be recognized in pension expense as follows:

<u>Year</u>	
2020	\$ 162,720
2021	79,282
2022	(26,529)
2023	(11,435)
2024	-
	<u>\$ 204,038</u>

*Actuarial Methods and Assumptions:* The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2018, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date:	June 30, 2018
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	27 years, closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll growth	3.05%
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability

For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2017. The actuarial assumptions are:

Inflation	2.30%
Salary Increases	3.05%
Investment Rate of Return	6.25% for CERS Non-hazardous, and hazardous, and

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

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 below tables.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity - US Large Cap*	5.00%	4.50%
US Equity - US Mid Cap*	6.00%	4.50%
US Equity - US Small Cap*	6.50%	5.50%
Non US Equity - International Developed*	12.50%	6.50%
Non US Equity - Emerging Markets*	5.00%	7.25%
Credit Fixed - Global IG Credit	2.00%	3.75%
Credit Fixed - High Yield	7.00%	5.50%
Credit Fixed - EMD	5.00%	6.00%
Credit Fixed - Illiquid Private	10.00%	8.50%
Global Bonds	4.00%	3.00%
Real Estate*	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real return*	10.00%	7.00%
Private Equity	10.00%	6.50%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	6.09%

*\*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%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate:* The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	<u>1% Decrease (5.25%)</u>	<u>Current discount rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Board's proportionate share of the net pension liability	\$ 2,682,322	\$ 2,130,693	\$ 1,668,525

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

*Payables to the pension plan:* At June 30, 2019, the payables to CERS were \$16,156.

## (7) OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLAN

### County Employees Retirement System Insurance Fund

*Plan description:* The County Employees Retirement System (“CERS”) Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. The CERS Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

*Benefits provided* - CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member’s years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member’s health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

*Contributions:* CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2019, CERS allocated 5.26% of the 21.48% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the year ending June 30, 2019, the Board contributed \$52,971 to the CERS Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

*Implicit Subsidy:* The fully-insured premiums KRS pays for the Kentucky Employees’ Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

### **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS Insurance Fund**

At June 30, 2019, the District reported a liability its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2016. An expected total OPEB liability as of June 30, 2018 was determined using standard roll-forward techniques. Board's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2018. At June 30, 2018, the Board's proportion was 0.034985%.

For the year ended June 30, 2019, the Board recognized OPEB expense of \$123,391. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 72,385
Changes of assumptions	124,050	1,435
Net difference between projected and actual earnings on pension plan investments	-	42,784
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	7,752
Board contributions subsequent to the measurement date	52,971	-
Total	<u>\$ 177,021</u>	<u>\$ 124,356</u>

At June 30, 2019, the Board reported deferred outflows of resources for Board contributions subsequent to the measurement date of \$52,971. These contributions will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These amounts will be recognized in pension expense as follows:

<u>Year</u>	
2020	\$ 688
2021	688
2022	688
2023	8,997
2024	(6,916)
Thereafter	(4,451)
	<u>\$ (306)</u>

*Actuarial Methods and Assumptions:* The total OPEB liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2018, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	27 Years, Closed
Payroll Growth Rate	3.05%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 5 years.
Post-65	Initial trend starting at 5.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 2 years.

## Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

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 below tables.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity - US Large Cap*	5.00%	4.50%
US Equity - US Mid Cap*	6.00%	4.50%
US Equity - US Small Cap*	6.50%	5.50%
Non US Equity - International Developed*	12.50%	6.50%
Non US Equity - Emerging Markets*	5.00%	7.25%
Credit Fixed - Global IG Credit	2.00%	3.75%
Credit Fixed - High Yield	7.00%	5.50%
Credit Fixed - EMD	5.00%	6.00%
Credit Fixed - Illiquid Private	10.00%	8.50%
Global Bonds	4.00%	2.63%
Real Estate*	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real return*	10.00%	7.00%
Private Equity	10.00%	6.50%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	6.09%

*\*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%. The projection of cash flows used to determine the discount rate assumed that local 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 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 Board's proportionate share of the net pension liability to changes in the discount rate:* The following presents the Board's proportionate share of the net OPEB liability calculated using the discount rate of 5.85%, as well as what the Board's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease (4.85%)	Current discount rate (5.85%)	1% Increase (6.85%)
Board's proportionate share of the net OPEB liability	\$ 806,753	\$ 621,134	\$ 463,440

*Sensitivity of the Board's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates* - The following presents the Board's proportionate share of the collective net OPEB liability, as well as what the Board's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current trend rate	1% Increase
Board's proportionate share of the net OPEB liability	\$ 462,440	\$ 621,134	\$ 808,188

*OPEB plan fiduciary net position:* Detailed information about the insurance plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

*Payables to the OPEB plan:* At June 30, 2019, the payables to CERS were \$5,316.

## **(8) COMMITMENTS AND CONTINGENCIES**

On January 1, 1979, the Board elected to become a self-insurer for the purpose of Kentucky unemployment insurance taxes. The Board has pledged to the Commonwealth of Kentucky real property that exceeds double the amount of deposit otherwise required as security to insure that any unemployment benefits due would be paid.

Effective January 1, 2006, the Board contracted with American Electric Power to provide all purchased power through May 31, 2025.

Effective April 1, 2008, the Board contracted with CenterPoint Energy to provide all purchased natural gas through March 31, 2022.

## **(9) RISK MANAGEMENT**

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board provides for risk

financing by purchasing coverage from commercial insurance companies. The Board also participates in the Kentucky League of Cities Workers Compensation Trust, a public entity risk pool. The Board pays premiums to the pool which in turn bears the risk of loss. The contract with the Kentucky League of Cities Workers Compensation Trust is a retrospectively rated contract. The premiums under this contract are estimated based on the ultimate cost of the experience to date of the group of entities participating. The Kentucky League of Cities Workers Compensation Trust performs an annual payroll audit of the Board and the premiums are then adjusted based on actual experience.

**(10) SEGMENT INFORMATION**

The Board issues separate revenue bonds to finance water and sewer departments. The two departments together with the gas department are accounted for in a single fund, but investors in those bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial activity for these departments is as follows:

	<u>Water Department</u>	<u>Sewer Department</u>	<u>Gas Department</u>	<u>Total</u>
<b>CONDENSED STATEMENT OF NET POSITION</b>				
<b>Assets:</b>				
Current assets	\$ 535,714	\$ 874,135	\$ 326,247	\$ 1,736,096
Capital assets	<u>8,286,314</u>	<u>6,107,290</u>	<u>71,683</u>	<u>14,465,287</u>
Total assets	<u>8,822,028</u>	<u>6,981,425</u>	<u>397,930</u>	<u>16,201,383</u>
<b>Deferred outflows of resources:</b>				
Deferred pension related	154,155	70,908	66,301	291,364
Deferred OPEB related	<u>50,539</u>	<u>23,247</u>	<u>21,736</u>	<u>95,522</u>
Total deferred outflows of resources	<u>204,694</u>	<u>94,155</u>	<u>88,037</u>	<u>386,886</u>
Total assets and deferred outflows of resources	<u>\$ 9,026,722</u>	<u>\$ 7,075,580</u>	<u>\$ 485,967</u>	<u>\$ 16,588,269</u>
<b>Liabilities:</b>				
Current liabilities	\$ 293,021	\$ 1,532,702	\$ 153,776	\$ 1,979,499
Noncurrent liabilities	<u>4,107,149</u>	<u>2,030,109</u>	<u>314,263</u>	<u>6,451,521</u>
Total liabilities	<u>4,400,170</u>	<u>3,562,811</u>	<u>468,039</u>	<u>8,431,020</u>
<b>Deferred inflows of resources:</b>				
Deferred pension related	49,325	22,688	21,214	93,227
Deferred OPEB related	<u>35,503</u>	<u>16,331</u>	<u>15,269</u>	<u>67,103</u>
Total deferred inflows of resources	<u>84,828</u>	<u>39,019</u>	<u>36,483</u>	<u>160,330</u>
<b>Net position:</b>				
Net investment in capital assets	4,707,540	4,309,193	71,683	9,088,416
Other restricted	307,500	821,870	151,463	1,280,833
Unrestricted	<u>(473,316)</u>	<u>(1,657,313)</u>	<u>(241,701)</u>	<u>(2,372,330)</u>
Total net position	<u>4,541,724</u>	<u>3,473,750</u>	<u>(18,555)</u>	<u>7,996,919</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 9,026,722</u>	<u>\$ 7,075,580</u>	<u>\$ 485,967</u>	<u>\$ 16,588,269</u>

**CONDENSED STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET POSITION**

Operating revenues (pledged against bonds)	\$ 1,064,045	\$ 351,210	\$ 956,299	\$ 2,371,554
Depreciation expense	(377,148)	(198,511)	(14,217)	(589,876)
Other operating expenses	<u>(803,503)</u>	<u>(474,196)</u>	<u>(937,049)</u>	<u>(2,214,748)</u>
Operating gain (loss)	(116,606)	(321,497)	5,033	(433,070)
Non-operating revenues (expenses):				
Investment income	828	1,807	712	3,347
Interest expense	(115,842)	(29,579)	-	(145,421)
Capital contributions	20,500	-	1,500	22,000
Transfers out	<u>(67,560)</u>	<u>(18,000)</u>	<u>(53,880)</u>	<u>(139,440)</u>
Change in net position	(278,680)	(367,269)	(46,635)	(692,584)
Beginning net position, as restated	4,820,404	3,841,019	28,080	8,689,503
Ending net position	<u>\$ 4,541,724</u>	<u>\$ 3,473,750</u>	<u>\$ (18,555)</u>	<u>\$ 7,996,919</u>

**CONDENSED STATEMENT OF CASH FLOWS  
NET CASH PROVIDED BY (USED BY)**

Operating activities	\$ 485,510	\$ 90,165	\$ 78,564	\$ 654,239
Noncapital financing activities	(67,560)	(18,000)	(53,880)	(139,440)
Capital and related financing activities	(417,950)	(206,025)	(21,441)	(645,416)
Investing activities	<u>828</u>	<u>1,807</u>	<u>712</u>	<u>3,347</u>
Net increase (decrease)	828	(132,053)	3,955	(127,270)
Beginning cash	329,547	956,614	232,574	1,518,735
Ending cash	<u>\$ 330,375</u>	<u>\$ 824,561</u>	<u>\$ 236,529</u>	<u>\$ 1,391,465</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**ELECTRIC PLANT BOARD  
OF THE CITY OF VANCEBURG  
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)  
SCHEDULE OF THE BOARD'S PROPORTIONATE  
SHARE OF THE NET PENSION AND OPEB LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Reporting Fiscal Year (Measurement Date)</u> 2019 (2018)	<u>Reporting Fiscal Year (Measurement Date)</u> 2018 (2017)	<u>Reporting Fiscal Year (Measurement Date)</u> 2017 (2016)	<u>Reporting Fiscal Year (Measurement Date)</u> 2016 (2015)	<u>Reporting Fiscal Year (Measurement Date)</u> 2015 (2014)
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:</b>					
Board's proportion of the net pension liability	0.034985%	0.035270%	0.035711%	0.035794%	0.035080%
Board's proportionate share of the net pension liability	\$ 2,130,693	\$ 2,064,462	\$ 1,758,292	\$ 1,538,959	\$ 1,138,000
Board's covered-employee payroll	\$ 869,724	\$ 858,738	\$ 851,876	\$ 821,688	\$ 804,786
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	244.985%	240.406%	206.402%	187.292%	141.404%
Plan fiduciary net position as a percentage of the total pension liability	53.540%	53.300%	55.500%	59.970%	66.800%
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:</b>					
Board's proportion of the net OPEB liability	0.034985%	0.035270%			
Board's proportionate share of the net OPEB liability	\$ 621,134	\$ 709,048			
Board's covered-employee payroll	\$ 869,724	\$ 858,738			
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	71.417%	82.569%			
Plan fiduciary net position as a percentage of the total OPEB liability	57.620%	52.400%			

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**ELECTRIC PLANT BOARD  
OF THE CITY OF VANCEBURG  
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)  
SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:</b>						
Contractually required contribution	\$ 163,149	\$ 125,936	\$ 119,794	\$ 105,803	\$ 104,771	\$ 110,582
Contributions in relation to the contractually required contribution	<u>163,149</u>	<u>125,936</u>	<u>119,794</u>	<u>105,803</u>	<u>104,771</u>	<u>110,582</u>
Contribution deficiency (excess)	-	-	-	-	-	-
Board's covered-employee payroll	\$ 1,005,851	\$ 869,724	\$ 858,738	\$ 851,876	\$ 821,688	\$ 804,786
Board's contributions as a percentage of its covered-employee payroll	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
 <b>COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:</b>						
Contractually required contribution	\$ 52,971	\$ 40,867	\$ 40,618			
Contributions in relation to the contractually required contribution	<u>52,971</u>	<u>40,867</u>	<u>40,618</u>			
Contribution deficiency (excess)	-	-	-			
Board's covered-employee payroll	\$ 1,005,851	\$ 869,724	\$ 858,738			
Board's contributions as a percentage of its covered-employee payroll	5.26%	4.70%	4.73%			

**Note:** Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**ELECTRIC PLANT BOARD  
OF THE CITY OF VANCEBURG  
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2019**

**(1) CHANGES OF ASSUMPTIONS**

CERS - PENSION

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

There were no changes made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

There were no changes made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018.

CERS - OPEB

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

There were no changes made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018.

**(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

CERS - PENSION

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2017 and 2018, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	27 years, closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.5%

### CERS - OPEB

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2019, determined as of July 1, 2015. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.5%
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post – 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

### **(3) CHANGES OF BENEFITS**

#### CERS - PENSION

There have been no changes in actuarial assumptions since June 30, 2017. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

#### CERS - OPEB

There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.





**Kelley Galloway**  
**Smith Goolsby, PSC**

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**INDEPENDENT AUDITOR'S 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**

Board Members  
Electric Plant Board of the  
City of Vanceburg  
Vanceburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Electric Plant Board of the City of Vanceburg, Kentucky, a component unit of the City of Vanceburg, Kentucky (the "Board"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 6, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Board'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for 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 Board's financial statements are free from 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 Board'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.

*Kelley Galloway Smith Golsby, PSC*

Ashland, Kentucky  
September 6, 2019