

Electric Plant Board of the City of Vanceburg

Lewis County, Kentucky

Single Audit

July 1, 2008 through June 30, 2009

Fiscal Year Audited Under GAGAS: 2009

Caudill & Associates, CPA's

725 5th Street
Portsmouth, OH 45662

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

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Caudill & Associates, CPA's

725 5th Street
Portsmouth, Ohio 45662

Member of American Institute of Certified Public Accounts

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Kentucky Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of the business-type activities and each major fund of the Electric Plant Board of the City of Vanceburg, a component unit of the City of Vanceburg, Kentucky, (Electric Plant Board) as of and for the year ended June 30, 2009, which collectively comprise the Electric Plant Board's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Electric Plant Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Electric Plant Board as of June 30, 2009, and the respective changes in financial position and the cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Electric Plant Board has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

Independent Auditor's Report (continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2010, on our consideration of the Electric Plant Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Electric Plant Board's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Electric Plant Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Caudill & Associates, CPA's

Caudill and Associates, CPA's
Certified Public Accountants

Portsmouth, Ohio
February 23, 2010

FINANCIAL STATEMENTS

ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2009

	ELECTRIC FUND	GAS, WATER AND SEWER FUND	TOTAL
ASSETS			
Current assets			
Cash	\$ 2,233,375	\$ 2,900	\$ 2,236,275
Customer accounts receivable, net	617,255	149,697	766,952
Other receivables	36,477	-	36,477
Accrued interest receivable	19,415	1,868	21,283
Supplies inventories	232,985	40,369	273,354
Total current assets	<u>3,139,507</u>	<u>194,834</u>	<u>3,334,341</u>
Restricted assets			
Cash	<u>23,587</u>	<u>770,773</u>	<u>794,360</u>
Total restricted assets	<u>23,587</u>	<u>770,773</u>	<u>794,360</u>
Unamortized debt issuance costs	<u>36,951</u>	<u>77,965</u>	<u>114,916</u>
Capital Assets			
Land	16,134	30,516	46,650
Structures and improvements	125,052	182,367	307,419
Utility plant	10,490,287	17,230,096	27,720,383
Machinery and equipment	1,444,879	821,966	2,266,845
Construction in progress	<u>37,274</u>	<u>29,594</u>	<u>66,868</u>
	12,113,626	18,294,539	30,408,165
Less: Accumulated depreciation	<u>(4,804,735)</u>	<u>(5,534,483)</u>	<u>(10,339,218)</u>
Capital assets, net	<u>7,308,891</u>	<u>12,760,056</u>	<u>20,068,947</u>
TOTAL ASSETS	<u>\$ 10,508,936</u>	<u>\$ 13,803,628</u>	<u>\$ 24,312,564</u>

	ELECTRIC FUND	GAS, WATER AND SEWER FUND	TOTAL
LIABILITIES			
Current liabilities (payable from current assets)			
Accounts payable	\$ 695,267	\$ 33,392	\$ 728,659
Accrued liabilities	32,333	13,559	45,892
Other liabilities	63,108	227,089	290,197
Long-term obligations	140,400	3,200	143,600
Total current liabilities (payable from current assets)	931,108	277,240	1,208,348
Current liabilities (payable from restricted assets)			
Accounts payable	-	20,858	20,858
Accrued liabilities	-	16,145	16,145
Other liabilities	-	7,375	7,375
Deposits	-	102,200	102,200
long-term obligations	-	219,659	219,659
Total current liabilities (payable from restricted assets)	-	366,237	366,237
Long-term liabilities, less current portion	4,214,107	4,477,402	8,691,509
Total liabilities	5,145,215	5,120,879	10,266,094
NET ASSETS			
Invested in capital assets, net of related debt	2,954,384	8,059,795	11,014,179
Restricted for			
Debt	-	140,808	140,808
Other purposes	23,587	483,387	506,974
Unrestricted	2,385,750	(1,241)	2,384,509
Total net assets	5,363,721	8,682,749	14,046,470
TOTAL LIABILITES AND NET ASSETS	\$ 10,508,936	\$ 13,803,628	\$ 24,312,564

The accompanying notes to the financial statements are an integral part of these statements.

**ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS-
PROPRIETARY FUNDS
For the Year ended June 30, 2009**

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	ELECTRIC FUND	GAS, WATER AND SEWER FUND	TOTAL
Operating revenues			
Sales of light and power	\$ 5,639,438	\$ -	\$ 5,639,438
Sale of gas, water and sewer	-	2,277,337	2,277,337
Total operating revenues	<u>5,639,438</u>	<u>2,277,337</u>	<u>7,916,775</u>
Operating expenses			
Cost of purchased power	4,462,032	-	4,462,032
Cost of purchased natural gas	-	1,133,049	1,133,049
Maintenance, operations and administration	1,005,168	1,006,377	2,011,545
Depreciation	264,089	472,740	736,829
Total operating expenses	<u>5,731,289</u>	<u>2,612,166</u>	<u>8,343,455</u>
operating income (loss)	<u>(91,851)</u>	<u>(334,829)</u>	<u>(426,680)</u>
Non-operating income (expenses)			
Interest income	60,681	17,139	77,820
Interest expense	(258,137)	(191,350)	(449,487)
Fiduciary fees	(9,873)	-	(9,873)
Amortization of bond issue costs	(2,169)	(3,642)	(5,811)
Total non-operating income (expense)	<u>(209,498)</u>	<u>(177,853)</u>	<u>(387,351)</u>
Income (loss) before contributions and transfers	(301,349)	(512,682)	(814,031)
Capital contributions	-	416,545	416,545
Transfers out	(199,200)	(90,540)	(289,740)
Change in net assets	<u>(500,549)</u>	<u>(186,677)</u>	<u>(687,226)</u>
Net assets at beginning of year	5,864,270	8,869,426	14,733,696
Net assets at end of year	<u>\$ 5,363,721</u>	<u>\$ 8,682,749</u>	<u>\$ 14,046,470</u>

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

**ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
PROPRIETARY FUNDS
For the Year ended June 30, 2009**

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	ELECTRIC FUND	GAS, WATER AND SEWER FUND	TOTAL
Cash flows from operations			
Receipts from customers	\$ 5,534,504	\$ 2,318,299	\$ 7,852,803
Payments to suppliers	(4,603,248)	(1,665,926)	(6,269,174)
Payments to employees	(371,608)	(386,286)	(757,894)
Net cash provided by operating activities	<u>559,648</u>	<u>266,087</u>	<u>825,735</u>
Cash flows from non-capital financing Activities			
Transfers out	<u>(199,200)</u>	<u>(90,540)</u>	<u>(289,740)</u>
Net cash used in non-capital financing Activities	<u>(199,200)</u>	<u>(90,540)</u>	<u>(289,740)</u>
Cash flows from capital and related financing activities			
Proceeds from debt	-	100,000	100,000
Principal payments on long-term debt	(130,400)	(149,217)	(279,617)
Interest payments	(258,562)	(191,550)	(450,112)
Fiduciary fees	(9,873)	-	(9,873)
Capital purchases	(59,613)	(545,847)	(605,460)
Capital contributions	-	416,545	416,545
Net cash used in capital and related financing activities	<u>(458,448)</u>	<u>(370,069)</u>	<u>(828,517)</u>
Cash flows from investing activities			
Interest received	<u>74,749</u>	<u>23,139</u>	<u>97,888</u>
Net cash provided by investing activities	<u>74,749</u>	<u>23,139</u>	<u>97,888</u>
Increase (decrease) in cash	(23,251)	(171,383)	(194,634)
Cash at beginning of year	2,280,213	945,056	3,225,269
Cash at end of year	<u>\$ 2,256,962</u>	<u>\$ 773,673</u>	<u>\$ 3,030,635</u>

**ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
STATEMENT OF CASH FLOWS - PROPIETARY FUNDS
PROPIETARY FUNDS
For the Year ended June 30, 2009 (Continued)**

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	ELECTRIC FUND	GAS, WATER AND SEWER FUND	TOTAL
Reconciliations of operating income to net cash provided by operating activities			
Operating income (loss)	\$ (91,851)	\$ (334,829)	\$ (426,680)
Adjustment to reconcile operating income to net cash provided by operating activities			
Depreciation	264,089	472,740	736,829
Changes in assets and liabilities			
Customer accounts receivable	(104,934)	40,962	(63,972)
Other receivables	-	62,150	62,150
Supplies inventories	2,308	3,588	5,896
Accounts payable	487,516	(123,039)	364,477
Accrued liabilities	2,485	3,074	5,559
Other liabilities	35	160,786	160,821
Deposits	-	(19,345)	(19,345)
Total adjustments	<u>651,499</u>	<u>600,916</u>	<u>1,252,415</u>
Net cash provided by operating activities	<u>\$ 559,648</u>	<u>\$ 266,087</u>	<u>\$ 825,735</u>
Reconciliation of cash			
Cash	\$ 2,233,375	\$ 2,900	\$ 2,236,275
Restricted cash	<u>23,587</u>	<u>770,773</u>	<u>794,360</u>
Total cash	<u>\$ 2,256,962</u>	<u>\$ 773,673</u>	<u>\$ 3,030,635</u>

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

**ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Electric Plan Board of the City of Vanceburg, Kentucky ("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 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, 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 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.

**ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (Continued)

Proprietary funds have elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, for proprietary funds. The proprietary funds apply all applicable GASB pronouncements, as well as statements and interpretations of the FASB, the Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 ASSETS

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.

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 deposit.

Receivable and Payables

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

All customer receivables are shown net of an allowance for uncollectible accounts and estimated refunds due. As of June 30, 2009 the allowance for uncollectible accounts is \$78,004. Unbilled service receivables are not accrued for at year-end

Inventories

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

**ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

Restricted Assets

Certain proceeds of the Board's bonds, 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.

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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets 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	5-10

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 assets. Initial issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred bond issuance costs.

**ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
ASSETS, LIABILITIES AND NET ASSETS (Continued)**

Net Assets and Fund Equity

In the proprietary funds financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the Board (such as creditors, grantors, contributors, laws,

Use of Estimates

The preparation of basic financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 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.

All deposits in the financial institutions must be fully insured or collateralized with securities having a current market value at least equal to any uninsured deposits. Uninsured deposits can only be collateralized with securities and other obligations described at Section 66.480 of the Kentucky Revised Statutes.

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 related in the highest three categories by a nationally recognized rating agency; and shares in mutual funds under certain conditions.

At June 30, 2009 the carrying amount of the Board's deposits with financial institutions was \$2,924,342 and the bank balance was \$3,026,364. Of the bank balance, \$621,242 was covered by federal depository insurance, with the remainder being uninsured, but collateralized by securities held by the pledging financial institution's trust department or agent, in the Board's name.

**ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3: CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2009 were as follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>ENDING BALANCE</u>
Nondepreciable assets:				
Land	\$ 46,650	\$ -	\$ -	\$ 46,650
Construction in progress	<u>83,455</u>	<u>560,782</u>	<u>577,369</u>	<u>66,868</u>
Total	<u>130,105</u>	<u>560,782</u>	<u>577,369</u>	<u>113,518</u>
Depreciable assets:				
Structures and improvements	307,419	577,369	-	307,419
Utility plant	27,143,014	-	-	27,720,383
Machinery and equipment	<u>2,222,167</u>	<u>44,678</u>	-	<u>2,266,845</u>
Total	<u>29,672,600</u>	<u>622,047</u>	-	<u>30,294,647</u>
TOTAL CAPITAL ASSETS	<u>29,802,705</u>	<u>1,182,829</u>	<u>577,369</u>	<u>30,408,165</u>
Less: accumulated depreciation for:				
Structures and improvements	(174,844)	(8,294)	-	(183,138)
Utility plant	(7,568,910)	(622,126)	-	(8,191,036)
Machinery and equipment	<u>(1,858,635)</u>	<u>(106,409)</u>	-	<u>(1,965,044)</u>
Total Accumulated Depreciation	<u>(9,602,389)</u>	<u>(736,829)</u>	-	<u>(10,339,218)</u>
CAPITAL ASSETS, NET	<u>\$20,200,316</u>	<u>\$ 446,000</u>	<u>\$ 577,369</u>	<u>\$20,068,947</u>
Depreciation expense was charged as follows:				
Electric Fund				\$ 264,089
Gas, Water and Sewer Fund				<u>472,740</u>
TOTAL DEPRECIATION EXPENSE				<u>\$ 736,829</u>

NOTE 4: INTERFUND TRANSFERS

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

Electric Fund	\$199,200
Gas, Water & Sewer Fund	<u>90,540</u>
	<u>\$289,740</u>

ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in financial statements for the year ended June 30, 2009:

	<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	\$4,619,385	\$ _____	\$ 79,617	\$4,539,768	\$ 83,259
Loans payable:					
Electric Fund	4,484,907	-	130,400	4,354,507	140,400
Gas, Water and Sewer Fund	<u>130,093</u>	<u>100,000</u>	<u>69,600</u>	<u>160,493</u>	<u>139,600</u>
TOTAL	<u>4,615,000</u>	<u>100,000</u>	<u>200,000</u>	<u>4,515,000</u>	<u>280,000</u>
Total long-term liabilities	<u>\$9,234,385</u>	<u>\$100,000</u>	<u>\$ 279,617</u>	<u>\$9,054,768</u>	<u>\$363,259</u>

BONDS PAYABLE

At June 30, 2009, bonds payable consisted of the following water and sewer revenue bonds:

<u>DATE ISSUED</u>	<u>FINAL MATURITY</u>	<u>INTEREST RATE 6/30/09</u>	<u>AUTHORIZED AND ISSUED</u>	<u>OUTSTANDING</u>
4/21/1992	1/1/2031	5.00%	\$ 694,000	\$ 542,000
4/21/1992	1/1/2031	5.00%	84,000	64,500
7/20/1993	1/1/2033	5.00%	200,000	163,000
6/3/1996	1/1/2035	4.50%	400,000	336,000
12/20/1996	1/1/2010	5.00%	45,700	6,520
12/20/1996	1/1/2033	5.00%	248,300	211,348
1/21/2000	1/1/2039	3.25%	469,000	423,000
2/14/2001	1/1/2040	3.25%	1,008,000	901,000
9/10/2003	1/1/2043	4.25%	1,515,000	1,447,500
3/9/2007	1/1/2046	4.125%	250,000	247,000
3/9/2007	1/1/2046	4.125%	<u>200,000</u>	<u>197,900</u>
TOTAL			<u>\$5,114,000</u>	<u>\$4,539,768</u>

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

**ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5: LONG-TERM LIABILITIES (Continued)

<u>FISCAL YEAR ENDING 6/30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	\$ 83,259	\$ 190,746	\$ 274,005
2011	84,813	187,164	271,977
2012	84,969	183,543	268,512
2013	89,798	219,918	309,716
2014	93,638	176,086	269,724
2015-2019	533,975	816,596	1,350,571
2020-2024	661,507	691,986	1,353,493
2025-2029	820,114	536,617	1,356,731
2030-2034	859,368	350,351	1,209,719
2035-2039	743,327	187,447	930,774
2040-2044	440,300	56,464	496,764
2045-2046	<u>44,700</u>	<u>2,780</u>	<u>47,480</u>
TOTAL	<u>\$4,539,768</u>	<u>\$3,599,698</u>	<u>\$8,139,466</u>

Under the provisions of the Bond Ordinances authorizing the 1991, 1993, 1996, 1999, 2000, 2003, and 2006 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 had a balance of \$90,287 at June 30, 2009.

The Bond Ordinances also requires 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 requires that the Board will not reduce the rates and charges for the services rendered by the Board without first filing with the City Clerk, a certification of 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.

**ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5: LONG-TERM LIABILITIES (Continued)

LOANS PAYABLE

At June 30, 2009 loans payable are as follows:

Kentucky Area Development Districts Financing Trust - In October, 2000, a variable rate financing lease payable was obtained to finance certain electric utility improvements and is secured by such improvements. The loan was in the amount of \$5,000,000 and for a term of 30 years. The interest rate on the loan varies from 4.75% to 6.00%. At June 30, 2009, the outstanding balance on the loan was \$4,260,000. Debt service requirements to maturity are as follows:

<u>FISCAL YEAR ENDING 6/30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	\$ 110,000	\$ 250,795	\$ 360,795
2011	115,000	245,185	360,185
2012	120,000	238,745	358,745
2013	125,000	232,025	357,025
2014	135,000	225,025	360,025
2015-2019	800,000	1,000,975	1,800,975
2020-2024	1,080,000	734,715	1,814,715
2025-2029	1,430,000	370,500	1,800,500
2030	<u>345,000</u>	<u>20,700</u>	<u>365,700</u>
TOTAL	<u>\$4,260,000</u>	<u>\$3,318,665</u>	<u>\$7,578,665</u>

Kentucky League of Cities Financing Trust - In October 2002, a financing lease payable was obtained to finance certain electric, gas, water and sewer improvements and is secured by such improvements. The loan was in the amount of \$400,000 and for a term of 7 years. The interest rate on the loan is 1.59%. At June 30, 2009, the outstanding balance on the loan was \$30,000. Debt service requirements to maturity are as follows:

<u>FISCAL YEAR ENDING 6/30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	\$ 30,000	\$ 239	\$ 30,239

ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5: LONG-TERM LIABILITIES (Continued)

Kentucky Area Districts Financing Trust - In November 2006, a variable rate financing lease 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 \$205,000 and for a term of 5 years. The interest rate on the loan varies from 4.00% to 4.40%. At June 30, 2009 the outstanding balance on the loan was \$125,000. Debt service requirements to maturity are as follows:

<u>FISCAL YEAR</u> <u>ENDING 6/30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	\$ 40,000	\$ 4,540	\$ 44,540
2011	40,000	2,840	42,840
2012	<u>45,000</u>	<u>990</u>	<u>45,990</u>
TOTAL	<u>\$125,000</u>	<u>\$ 8,370</u>	<u>\$133,370</u>

Buffalo Trace Area Development District Loan - 4% fixed rate unsecured loan obtained November, 2008 due November 11, 2009 in one payment of principal and interest. At June 30, 2009, the outstanding loan balance was \$100,000. Debt reserve requirements to maturity are as follows:

<u>FISCAL YEAR</u> <u>ENDING 6/30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	\$100,000	\$ 4,000	\$104,000

NOTE 6: PENSION PLAN

County Employees Retirement System

Substantially all 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.

**ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 6: PENSION PLAN (Continued)

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.

Funding for CERS is provided by members who contribute 5.0% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 13.5% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. The Board's contributions to CERS for the year ending June 30, 2009 was \$96,048 and were equal to the required contributions for the year.

NOTE 7: 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 Atoms Energy to provide all purchased natural gas through March 31, 2011.

The City of Vanceburg has entered into an agreement with the Kentucky Environmental Protection Agency to improve its sanitary sewer and storm sewer system. The majority of the costs for these improvements are expected to be paid for with grants. The ultimate cost of all future improvements is unknown.

NOTE 8: 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.

**ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 9: 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:

	WATER & SEWER DEPARTMENT
CONDENSED STATEMENT OF NET ASSETS	
Assets:	
Current assets	\$ 131,104
Other assets	715,753
Capital assets	<u>12,567,582</u>
Total assets	<u>13,414,439</u>
Liabilities:	
Other current liabilities	264,037
Noncurrent liabilities	<u>4,470,438</u>
Total liabilities	<u>4,734,475</u>
Net assets:	
Invested in capital assets, net of related debt	7,877,485
Other restricted	593,538
Unrestricted	<u>208,941</u>
Total net assets	<u>\$ 8,679,964</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS	
Operating revenues (pledged against bonds)	\$ 867,869
Depreciation expense	(445,885)
Other operating expenses	<u>(642,896)</u>
Operating loss	(220,912)
Non-operating revenues (expenses):	
Investment income	9,995
Interest expense	(191,069)
Amortization of bond issue costs	(3,591)
Capital contributions	416,545
Transfers out	<u>(54,540)</u>
Change in net assets	(43,572)
Beginning net assets	<u>8,723,536</u>
Ending net assets	<u>\$ 8,679,964</u>
CONDENSED STATEMENT OF CASH FLOWS	
Net cash provided (used) by:	
Operating activities	\$ 227,504
Noncapital financing activities	(54,540)
Capital and related financing activities	(340,999)
Investing activities	<u>13,177</u>
Net decrease	(154,858)
Beginning cash	<u>792,774</u>
Ending cash	<u>\$ 637,916</u>

SUPPLEMENTAL INFORMATION

**ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2009**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Rural Utilities Service			
Outstanding loan balances that did not involve a federal outlay of funds during the year ended June 30, 2009	10.418		\$1,323,368
Water and Waste Disposal Systems for Rural Communities			
Outstanding loan balances that did not involve a federal outlay of funds during the year ended June 30, 2009	10.760		<u>3,216,400</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u><u>\$4,539,768</u></u>

NOTE: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting

Caudill & Associates, CPA's

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Ohio Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

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*

To the Board Members
The Electric Plant Board of the
City of Vanceburg
Vanceburg, KY

We have audited the financial statements of The Electric Plant Board of the City of Vanceburg, a component unit of the City of Vanceburg, Kentucky (Electric Plant Board) of the business-type activities and each major fund as of and for the year ended June 30, 2009, which collectively comprise the Electric Plant Board's financial statements and have issued our report thereon dated February 23, 2010. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing my audits, we considered The Electric Plant Board's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Electric Plant Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Electric Plant Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Electric Plant Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the Electric Plant Board's financial statements that is more than inconsequential will not be prevented or detected by the Electric Plant Board's internal control. We consider the following deficiencies described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting and labeled as 2009-001 and 2009-002.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Electric Plant Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We consider the following deficiencies, described in the accompanying schedule of findings and questioned costs as items 2009-001 and 2009-002, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Electric Plant Board'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 my audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance described in the schedule of findings and questioned costs as items 2009-001 and 2009-002.

We noted certain other matters that we reported to management of the Electric Plant Board in a separate letter dated February 23, 2010.

The Electric Plant Board's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Electric Plant Board's responses and accordingly, we express no opinion on it

This report is intended solely for the information and use of the Board Members, Management, Rural Utilities Service, and supplemental lenders and is not intended to be and should not be used by anyone other than those specified parties.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
Certified Public Accountants

Portsmouth, OH
February 23, 2010

Caudill & Associates, CPA's

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board Members
The Electric Plant Board of the
City of Vanceburg
Vanceburg, KY

Compliance

We have audited the compliance of The Electric Plant Board of the City of Vanceburg , a component unit of the City of Vanceburg, KY(Electric Plant Board) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Electric Plant Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulation, contracts, and grants applicable to each of its major federal programs is the responsibility of The Electric Plant Board's management. Our responsibility is to express an opinion on The Electric Plant Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Electric Plant Board's compliance with those requirements and performing other procedures as I considered necessary in the circumstances. We believe that our audit provides a reasonable basis for my opinion. Our audit does not provide a legal determination on The Electric Plant Board's compliance with those requirements.

In our opinion, The Electric Plant Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of The Electric Plant Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Electric Plant Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Electric Plant Board's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, Board Members, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
Certified Public Accountants

Portsmouth, OH
February 23, 2010

**THE ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**OMB CIRCULAR A-133 § .505
FOR THE YEAR ENDED JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant control deficiency(ies) reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness reported for major federal programs?	No
(d)(1)(iv)	Were there any significant internal control deficiency(ies) for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	USDA RUS outstanding loans 10.418 USDA water & wastewater loans 10.760
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	\$300,000
(d)(1)(ix)	Low Risk Auditee?	Yes

**THE ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
*OMB CIRCULAR A-133 §.505***

FOR THE YEAR ENDED JUNE 30, 2009

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2009-001

Significant Deficiency/Material Weakness – Control Deficiency – Financial Statement Findings

Noncompliance Citation – KRS 96.820

KRS Chapter 96.820 states that any payments-in-lieu of taxes that are made by the Electric Plant Board are to be made based upon a computation that takes into consideration the taxable book value of the Board's assets in each taxing jurisdiction it provides service. The amount paid is to be based upon the taxable value in each taxing jurisdiction multiplied by the ad-valorem tax in effect and applicable to other taxable entities within that jurisdiction.

During the course of our audit engagement, we found that payments in lieu of taxes have been made exclusively to the City of Vanceburg and that there was no computation supporting the value of the property subject to taxation or use of the applicable ad-valorem tax rate in effect to determine the appropriate amount of the payment. During the year ended June 30, 2009, there were payments in the amount of \$289,740 made to the City of Vanceburg.

We recommend that any payments-in-lieu of taxes cease and that if the Electric Plant Board chooses to make such payments that they be made in accordance with the provisions of KRS 96.820.

Electric Plant Board Response:

As a result of numerous conversations with our auditors and following the receipt of an email from our auditors, on February 9, 2010, the Board voted unanimously to suspend payments to the City during our regular monthly meeting. The Board has engaged outside legal counsel to determine the correct method for calculating the payment-in-lieu of taxes and whether to the Electric Plant Board should continue to provide such payments.

**THE ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505**

FOR THE YEAR ENDED JUNE 30, 2009

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2009-002

Significant Deficiency/Material Weakness – Control Deficiency – Financial Statement Findings

Noncompliance Citation – KRS 96.830

KRS Chapter 96.830 states “The Board shall charge the municipality and all departments and works thereof for any electric service furnished to them at the rates applicable to other customers taking service under similar conditions.”

During the course of our audit engagement, we found that the Board has not been charging the City of Vanceburg for the utilities it consumes. During the year ended June 30, 2009, the value of utility services received by the City was approximately \$120,000.

We recommend the City of Vanceburg be billed for utility services under the same rates and terms as similar customers.

Electric Plant Board Response:

As a result of numerous conversations with our auditors and the advice of the Board’s attorney, the Board voted unanimously during the February 9, 2010 meeting to initiate billing the City for all utilities consumed at the prevailing rate charged to other customers. The Board has engaged outside legal counsel to confirm the findings presented by our auditors and is currently awaiting the advice of counsel.

3. FINDINGS AND QUESTIONED COST FOR FEDERAL AWARDS

No reportable matters.

**THE ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY**

SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2009

None.

