ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG, KENTUCKY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

KG Kelley, Galloway & Company, PSC
CERTIFIED PUBLIC ACCOUNTANTS

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Kelley,
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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2011, 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 Electric Plant Board of the City of Vanceburg, Kentucky as of June 30, 2011, and the respective changes in its financial position and cash flows 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011 on our consideration of 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 assessing the results of our audit.

Kelley, Galloway & Company, PSC

December 23, 2011

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, 2011

	Business-Type Activities - Enterprise Funds		
ASSETS	Electric Fund	Gas, Water and Sewer Fund	Total
Current assets-			
Unrestricted:			
Cash	$ 3,768,089	$ 2,900	$ 3,770,989
Customer accounts receivable, net	712,006	230,950	942,956
Interfund receivable	21,033	-	21,033
Accrued interest receivable	3,373	803	4,176
Supplies inventories	234,072	60,446	294,518
Total unrestricted current assets	4,738,573	295,099	5,033,672
Restricted:			
Cash	24,762	230,671	255,433
Total restricted current assets	24,762	230,671	255,433
Total current assets	4,763,335	525,770	5,289,105
Capital assets:			
Land	16,134	30,516	46,650
Structures and improvements	171,804	224,456	396,260
Utility plant	10,592,164	17,267,940	27,860,104
Machinery and equipment	1,562,015	907,150	2,469,165
Construction in process	-	157,985	157,985
	12,342,117	18,588,047	30,930,164
Less: Accumulated depreciation	(5,334,229)	(6,572,479)	(11,906,708)
Capital assets, net	7,007,888	12,015,568	19,023,456
Other assets:			
Unamortized debt issuance costs	32,612	72,311	104,923
Total assets	$ 11,803,835	$ 12,613,649	$ 24,417,484

ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS (CONCLUDED)
JUNE 30, 2011

	Business-Type Activities - Enterprise Funds		
LIABILITIES	Electric Fund	Gas, Water and Sewer Fund	Total
Current liabilities-			
Unrestricted:			
(payable from current assets)			
Accounts payable	$ 625,670	$ 38,215	$ 663,885
Accrued payroll and payroll items	38,792	17,791	56,583
Interfund payable	-	6,941	6,941
Other accrued liabilities	40,778	180,843	221,621
Accrued interest payable	19,895	-	19,895
Current portion of long-term obligations	163,887	3,764	167,651
Total unrestricted current liabilities (payable from current assets)	889,022	247,554	1,136,576
Restricted:			
(payable from restricted assets)			
Accrued payroll liabilities	-	21,042	21,042
Interfund payable	-	14,092	14,092
Other liabilities	-	2,594	2,594
Customer deposits	-	116,895	116,895
Accrued interest payable	-	90,150	90,150
Current portion of long-term obligations	-	92,497	92,497
Total restricted current liabilities (payable from restricted assets)	-	337,270	337,270
Total current liabilities	889,022	584,824	1,473,846
Long-term liabilities, less current portion	3,904,821	4,401,874	8,306,695
Total liabilities	4,793,843	4,986,698	9,780,541
NET ASSETS:			
Invested in capital assets, net of related debt	2,939,181	7,517,433	10,456,614
Restricted for			
Debt retirement	-	30,914	30,914
Other purposes	24,762	-	24,762
Unrestricted	4,046,049	78,604	4,124,653
Total net assets	7,009,992	7,626,951	14,636,943
Total liabilities and net assets	$ 11,803,835	$ 12,613,649	$ 24,417,484

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 ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds		
	Electric Fund	Gas, Water and Sewer Fund	Total
OPERATING REVENUES			
Sales of light and power	$ 7,296,542	$ -	$ 7,296,542
Sale of gas, water and sewer	-	2,139,653	2,139,653
Total operating revenues	7,296,542	2,139,653	9,436,195
OPERATING EXPENSES			
Cost of purchased power	4,559,757	-	4,559,757
Cost of purchased natural gas	-	709,567	709,567
Maintenance, operations and administration	1,157,631	1,259,615	2,417,246
Depreciation	269,108	521,811	790,919
Total operating expenses	5,986,496	2,490,993	8,477,489
Operating income (loss)	1,310,046	(351,340)	958,706
NON-OPERATING REVENUE (EXPENSES)			
Interest income	28,472	3,013	31,485
Interest expense	(249,417)	(183,978)	(433,395)
Fiduciary fees	(5,236)	-	(5,236)
Amortization of bond issue costs	(2,169)	(2,710)	(4,879)
Grant income	-	51,449	51,449
Total non-operating income (expense)	(228,350)	(132,226)	(360,576)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,081,696	(483,566)	598,130
Capital contributions	-	161,574	161,574
Transfers out	(314,517)	(129,638)	(444,155)
CHANGE IN NET ASSETS	767,179	(451,630)	315,549
NET ASSET, JUNE 30, 2010	6,242,813	8,078,581	14,321,394
NET ASSETS, JUNE 30, 2011	$ 7,009,992	$ 7,626,951	$ 14,636,943

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, 2011

	Business-Type Activities - Enterprise Funds		
	Electric Fund	Gas, Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 7,188,438	$ 2,092,638	$ 9,281,076
Payments to suppliers	(5,391,033)	(1,548,115)	(6,939,148)
Payments to employees	(382,699)	(430,015)	(812,714)
Net cash provided by operating activities	1,414,706	114,508	1,529,214
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers out	(372,515)	(167,363)	(539,878)
Net cash used in non-capital financial activities	(372,515)	(167,363)	(539,878)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from long-term debt	-	120,000	120,000
Principal payments on long-term debt	(145,400)	(99,810)	(245,210)
Interest payments	(249,882)	(99,060)	(348,942)
Fiduciary fees	(5,236)	-	(5,236)
Capital purchases	(138,431)	(176,920)	(315,351)
Capital contributions	-	161,574	161,574
Grant income	-	51,449	51,449
Net cash used in capital and related financing activities	(538,949)	(42,767)	(581,716)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	29,986	3,385	33,371
Net cash provided by investing activities	29,986	3,385	33,371
Increase (decrease) in cash and cash equivalents	533,228	(92,237)	440,991
Cash and cash equivalents, June 30, 2010	3,259,623	325,808	3,585,431
Cash and cash equivalents, June 30, 2011	$ 3,792,851	$ 233,571	$ 4,026,422

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, 2011 (CONCLUDED)

	Business-Type Activities - Enterprise Funds		
Reconciliations of operating income to	Electric Fund	Gas, Water and Sewer Fund	Total
net cash provided by operating activities -			
Operating income (loss)	$ 1,310,046	$ (351,340)	$ 958,706
Adjustment to reconcile operating income (loss) to net cash provided by operating activities -			
Depreciation	269,108	521,811	790,919
Changes in assets and liabilities -			
Customer accounts receivable	(108,104)	(47,015)	(155,119)
Interfund receivable	(9,590)	-	(9,590)
Supplies inventories	(8,686)	4,917	(3,769)
Accounts payable	(51,598)	(14,147)	(65,745)
Interfund payable	-	9,590	9,590
Accrued payroll and payroll items	9,364	6,926	16,290
Other accrued liabilities	4,166	(21,434)	(17,268)
Deposits	-	5,200	5,200
Total adjustments	104,660	465,848	570,508
Net cash provided by operating activities	$ 1,414,706	$ 114,508	$ 1,529,214
Reconciliation of cash:			
Cash	$ 3,768,089	$ 2,900	$ 3,770,989
Restricted cash	24,762	230,671	255,433
Total cash and cash equivalents	$ 3,792,851	$ 233,571	$ 4,026,422

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

(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 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 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 the Financial Accounting Standards Board pronouncements 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.

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 is referred to as *interfund receivables/interfund payable*, 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, 2011 the allowance for uncollectible accounts was $85,000.

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.

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.

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 repair that do not add to the value of the asset or materially extend assets lives is 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:

Assets	Years
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, 2011 was $790,919.

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 and are amortized over the lives of the respective bond issue.

Interest Expense

Interest expense incurred during the construction of financed projects is capitalized during the construction period. Interest expense on notes and bonds payable in subsequent years is expensed currently. Current year interest expense was $433,395 and none was capitalized.

Encumbrances

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

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, and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The Board's other restricted net assets are temporarily restricted (ultimately expendable) assets. All other net assets are considered unrestricted.

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.

(2) DEPOSITS WITH FINANCAIL 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, 2011, the carrying amount of the Board's deposits with financial institutions was $3,843,565 (including overdrafts of $179,957 that were reclassed to accounts payable), and the bank balance was $3,873,783. Of the bank balance, $588,447, 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.

(3) CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2011 were as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Nondepreciable assets:				
Land	$ 46,650	$ -	$ -	$ 46,650
Construction in progress	-	157,985	-	157,985
Total	46,650	157,985	-	204,635
Depreciable assets:				
Structures and improvements	396,260	-	-	396,260
Utility plant	27,763,479	96,625	-	27,860,104
Machinery and equipment	2,352,029	117,136	-	2,469,165
Total	30,511,768	213,761	-	30,725,529
Total Capital Assets	30,558,418	371,746	-	30,930,164

Less: accumulated depreciation for:				
Structures and improvements	(193.209)	(11,848)	-	(205.057)
Utility plant	(8.851.013)	(659.981)	-	(9,510.994)
Machinery and equipment	(2,071.567)	(119.090)	-	(2,190.657)
Total accumulated depreciation	(11,115.789)	(790,919)	-	(11,906,708)
Capital assets, net	$ 19,442.629	$ (419,173)	$ -	$ 19,023,456

Depreciation expense was charged to operations as follows:

Electric Fund	$ 269,108
Gas, Water and Sewer fund	521,811
	$ 790,919

(4) INTERFUND 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 Assets - Proprietary Funds as transfers from these funds to the City as follows:

Electric fund	$ 314,517
Gas, water and sewer fund	129,638
	$ 444,155

(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, 2011:

	Beginning Balance	Additional Proceeds	Reductions/ Payments	Ending Balance	Due Within One Year
Bonds payable:					
Gas, water and sewer fund	$ 4,457,051	$ -	$ 85,268	$ 4,371,783	$ 84,969
Loans payable:					
Electric fund	4,214,107	-	145,399	4,068,708	163,887
Gas, water and sewer fund	20,893	120,000	14,541	126,352	11,292
	4,235,000	120,000	159,940	4,195,060	175,179
Total long-term liabilities	$ 8,692,051	$ 120,000	$ 245,208	$ 8,566,843	$ 260,148

Bonds Payable

At June 30, 2011, bonds payable consisted of the following water and sewer revenue bonds:

Date Issued	Final Maturity	Interest Rate	Authorized and Issued	Outstanding
04/21/1992	01/01/2031	5.00%	$ 694,000	$ 513,000
04/21/1992	01/01/2031	5.00	84,000	60,500
07/20/1993	01/01/2033	5.00	200,000	155,500
06/03/1996	01/01/2035	4.50	400,000	321,500
12/20/1996	01/01/2033	5.00	248,300	202,883
01/21/2000	01/01/2039	3.25	469,000	409,000
02/14/2001	01/01/2040	3.25	1,008,000	866,000
09/10/2003	01/01/2043	4.25	1,515,000	1,409,000
03/09/2007	01/01/2046	4.125	250,000	241,000
03/09/2007	01/01/2046	4.125	200,000	193,400
			$ 5,068,300	$ 4,371,783

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

Fiscal Year	Principal	Interest	Total
2012	$ 84,969	$ 183,833	$ 268,802
2013	89,798	180,226	270,023
2014	93,638	176,410	270,048
2015	97,590	172,425	270,015
2016	102,954	168,268	271,222
2017 - 2021	580,127	771,900	1,352,027
2022 - 2026	720,931	636,115	1,357,046
2027 - 2031	894,593	466,878	1,361,471
2032 - 2036	779,995	282,441	1,062,436
2037 - 2041	667,600	133,310	800,910
2042 - 2046	259,588	23,827	283,415
	$ 4,371,783	$ 3,195,633	$ 7,567,416

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 has a balance of $127,488 at June 30, 2011.

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.

Loans Payable

At June 30, 2011 loans payable were 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, 2011, the outstanding balance on the loan was $4,035,000. Debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 120,000	$ 238,745	$ 358,745
2013	125,000	232,025	357,025
2014	135,000	225,025	360,025
2015	140,000	217,465	357,465
2016	150,000	209,625	359,625
2017 - 2021	900,000	904,800	1,804,800
2022 - 2026	1,215,000	601,500	1,816,500
2027 - 2031	1,250,000	193,500	1,443,500
	$ 4,035,000	$ 2,822,685	$ 6,857,685

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, 2011 the outstanding balance on the loan was $45,000. Debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 45,000	$ 990	$ 45,990

Buffalo Trace Area Development - In January 2011, a fixed note payable was obtained to finance certain electric, gas, water and sewer equipment and improvement, 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, 2011, the outstanding balance of the loan was $115,060. Debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2012	$ 10,179	$ 4,501	$ 14,680
2013	10,589	4,091	14,680
2014	11,017	3,663	14,680
2015	11,463	3,217	14,680
2016	11,926	2,754	14,680
2017 - 2020	59,887	6,145	66,031
	$ 115,060	$ 24,371	$ 139,431

(6) PENSION PLAN

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.

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 16.93% 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 years ending June 30, 2011 and 2010 was $126,485 and $118,086, respectively, which were equal to the required contributions.

(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, 2025.

Litigation was instituted by the Kentucky Environmental Protection Cabinet against the Electric Plant Board, (and against many municipalities in Kentucky along the Ohio River, and elsewhere) concerning sanitary sewer and storm sewer issues. A consent judgment was entered in 2008, requiring the Electric Plant Board to institute short term and long term improvements to those systems. As preliminary diagnostic assessments of the systems have been conducted it has become apparent that there will be significant capital improvements requiring expenditures over a period of years in order to comply with the terms of the judgment. The Plant Board is aggressively seeking grant and low interest financing to fund the required improvements. Rough and preliminary cost estimates for completion of the various improvements appear to be in the vicinity of five million dollars. Repayments of non-grant amounts required to finance the project will be amortized over a period of possibly twenty to thirty years.

(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 contact 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.

(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 Department	Sewer Department	Gas Department	Total
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$ 133,036	$ 53,249	$ 108,814	$ 295,099
Other assets	217,405	(420)	85,997	302,981
Capital assets	7,918,467	3,952,147	144,954	12,015,568
Total assets	8,268,908	4,004,976	339,765	12,613,649
Liabilities:				
Other current liabilities	170,666	49,709	364,449	584,824
Noncurrent liabilities	3,845,374	556,500	-	4,401,874
Total liabilities	4,016,040	606,209	364,449	4,986,698
Net assets:				
Invested in capital assets, net of related debt	4,001,360	3,374,884	141,189	7,517,433
Other restricted	30,914	-	-	30,914
Unrestricted	220,594	23,883	(165,873)	78,604
Total net assets	4,252,868	3,398,767	(24,684)	7,626,951
	$ 8,268,908	$ 4,004,976	$ 339,765	$ 12,613,649

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Operating revenues (pledged against bonds)	$ 686.660	$ 279,405	$ 1,173,588	$ 2,139,653
Depreciation expense	(364,525)	(129,495)	(27,791)	(521,811)
Other operating expenses	(566,579)	(318,635)	(1,083,968)	(1,969,182)
Operating gain (loss)	(244,444)	(168,725)	61,829	(351,340)
Non-operating revenues (expenses):				
Investment income	984	1,154	875	3,013
Interest expense	(152.479)	(31,499)	-	(183,978)
Amortization of bond issue costs	(2,261)	(398)	(51)	(2,710)
Grant income	51,449	-	-	51,449
Capital contributions	9,600	151,074	900	161,574
Transfers out	(63,057)	(16,795)	(49,786)	(129,638)
Change in net assets	(400,208)	(65,189)	13,767	(451,630)
Beginning net assets	4,653,076	3,463,956	(38,451)	8,078,581
Ending net assets	$ 4,252,868	$ 3,398,767	$ (24,684)	$ 7,626,951

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

Operating activities	$ 85,250	$ (40,959)	$ 70,217	$ 114,508
Noncapital financing activities	(80,982)	(21,595)	(64,786)	(167,363)
Capital and related financing activities	(103,410)	62,943	(2,300)	(42,767)
Investing activities	1,109	1,278	998	3,385
Net decrease	(98,033)	1,667	4,129	(92,237)
Beginning cash	250,399	(9,333)	84,742	325,808
Ending cash	$ 152,366	$ (7,666)	$ 88,871	$ 233,571

(10) SUBSEQUENT EVENTS

Subsequent to year end, the City of Vanceburg for the benefit of the Vanceburg Electric Plant Board entered into a Clean Water SRF 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 principal balance ($600,000) will be forgiven. The terms of the loan states conditions that must be met by the Board, one of which being a schedule of rate increases for sewer and water rates through 2014.

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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 the financial statements of the Electric Plant Board of the City of Vanceburg, (the "Board") as of and for the year ended June 30, 2011, and have issued our report thereon dated December 23, 2011. 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.

Internal Control Over Financial Reporting

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Board in a separate letter dated December 23, 2011.

This report is intended solely for the information and use of the Board, management, 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.

Kelley, Galloway & Company, PSC

December 23, 2011