

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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Kelley **G**alloway
Smith **G**oolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41102

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

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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, 2014, 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, 2014, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The 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 not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, 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

October 31, 2014

**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, 2014**

Business-Type Activities - Enterprise Funds

	<u>Electric Fund</u>	<u>Gas, Water and Sewer Fund</u>	<u>Total</u>
ASSETS			
Current assets-			
Unrestricted:			
Cash	\$ 1,806,820	\$ 84,169	\$ 1,890,989
Customer accounts receivable, net	731,937	261,665	993,602
Interfund receivable	881,893	-	881,893
Accrued interest receivable	2,096	251	2,347
Prepaid insurance	14,653	9,769	24,422
Supplies inventories	320,672	76,963	397,635
Total unrestricted current assets	<u>3,758,071</u>	<u>432,817</u>	<u>4,190,888</u>
Restricted:			
Cash	<u>2,477,991</u>	<u>2,021,226</u>	<u>4,499,217</u>
Total restricted current assets	<u>2,477,991</u>	<u>2,021,226</u>	<u>4,499,217</u>
Total current assets	<u>6,236,062</u>	<u>2,454,043</u>	<u>8,690,105</u>
Capital assets:			
Land	16,134	183,516	199,650
Structures and improvements	171,804	224,456	396,260
Utility plant	10,740,858	21,564,855	32,305,713
Machinery and equipment	1,688,522	990,968	2,679,490
Construction in progress	-	795,639	795,639
	<u>12,617,318</u>	<u>23,759,434</u>	<u>36,376,752</u>
Less: Accumulated depreciation	<u>(6,107,724)</u>	<u>(8,155,765)</u>	<u>(14,263,489)</u>
Capital assets, net	<u>6,509,594</u>	<u>15,603,669</u>	<u>22,113,263</u>
Total assets	<u>\$ 12,745,656</u>	<u>\$ 18,057,712</u>	<u>\$ 30,803,368</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, 2014**

Business-Type Activities - Enterprise Funds

LIABILITIES	<u>Electric Fund</u>	<u>Gas, Water and Sewer Fund</u>	<u>Total</u>
Current liabilities-			
Unrestricted:			
(payable from current assets)			
Accounts payable	\$ -	\$ 39,669	\$ 39,669
Accrued payroll and payroll items	-	11,440	11,440
Interfund payable	-	3,831	3,831
Other accrued liabilities	-	2,307	2,307
Accrued interest payable	-	-	-
Current portion of long-term obligations	-	-	-
Total unrestricted current liabilities	<u>-</u>	<u>-</u>	<u>-</u>
(payable from current assets)	<u>-</u>	<u>57,247</u>	<u>57,247</u>
Restricted:			
(payable from restricted assets)			
Accounts payable	341,865	-	341,865
Accrued payroll liabilities	37,368	28,845	66,213
Interfund payable	-	878,062	878,062
Other liabilities	42,210	4,395	46,605
Customer deposits	-	119,445	119,445
Accrued interest payable	7,839	87,496	95,335
Current portion of long-term obligations	<u>197,083</u>	<u>168,418</u>	<u>365,501</u>
Total restricted current liabilities	<u>626,365</u>	<u>1,286,661</u>	<u>1,913,026</u>
(payable from restricted assets)	<u>626,365</u>	<u>1,286,661</u>	<u>1,913,026</u>
Total current liabilities	<u>626,365</u>	<u>1,343,908</u>	<u>1,970,273</u>
Long-term liabilities, less current portion	<u>3,461,667</u>	<u>5,834,427</u>	<u>9,296,094</u>
Total liabilities	<u>4,088,032</u>	<u>7,178,335</u>	<u>11,266,367</u>
NET POSITION			
Net investment in capital assets	2,850,844	9,600,824	12,451,668
Restricted for			
Debt retirement	2,444,750	1,863,007	4,307,757
Other purposes	25,402	70,723	96,125
Unrestricted	<u>3,336,628</u>	<u>(655,177)</u>	<u>2,681,451</u>
Total net position	<u>\$ 8,657,624</u>	<u>\$ 10,879,377</u>	<u>\$ 19,537,001</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, 2014**

Business-Type Activities - Enterprise Funds

	Electric Fund	Gas, Water and Sewer Fund	Total
OPERATING REVENUES			
Sales of light and power	\$ 6,957,631	\$ -	\$ 6,957,631
Sale of gas, water and sewer	-	2,438,358	2,438,358
Total operating revenues	<u>6,957,631</u>	<u>2,438,358</u>	<u>9,395,989</u>
OPERATING EXPENSES			
Cost of purchased power	4,775,347	-	4,775,347
Cost of purchased natural gas	-	652,180	652,180
Maintenance, operations and administration	1,120,766	1,233,232	2,353,998
Depreciation	242,972	548,007	790,979
Total operating expenses	<u>6,139,085</u>	<u>2,433,419</u>	<u>8,572,504</u>
Operating income	<u>818,546</u>	<u>4,939</u>	<u>823,485</u>
NON-OPERATING REVENUE (EXPENSES)			
Interest income	9,590	2,549	12,139
Interest expense	(95,951)	(185,058)	(281,009)
Capital grants	-	2,723,340	2,723,340
Fiduciary fees	(10,077)	-	(10,077)
Total non-operating income (expense)	<u>(96,438)</u>	<u>2,540,831</u>	<u>2,444,393</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	722,108	2,545,770	3,267,878
Capital contributions	-	7,900	7,900
Transfers out	<u>(285,784)</u>	<u>(128,396)</u>	<u>(414,180)</u>
CHANGE IN NET POSITION	436,324	2,425,274	2,861,598
NET POSITION, JUNE 30, 2013, as restated	<u>8,221,300</u>	<u>8,454,103</u>	<u>16,675,403</u>
NET POSITION, JUNE 30, 2014	<u>\$ 8,657,624</u>	<u>\$ 10,879,377</u>	<u>\$ 19,537,001</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 CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

Business-Type Activities - Enterprise Funds

	Electric Fund	Gas, Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 7,417,568	\$ 2,431,601	\$ 9,849,169
Payments to suppliers	(5,473,565)	(1,522,556)	(6,996,121)
Payments to employees	(427,768)	(418,642)	(846,410)
Net cash provided by operating activities	<u>1,516,235</u>	<u>490,403</u>	<u>2,006,638</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers out	(285,784)	(128,396)	(414,180)
Net cash used in non-capital financial activities	<u>(285,784)</u>	<u>(128,396)</u>	<u>(414,180)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from long-term debt	-	2,311,133	2,311,133
Principal payments on long-term debt	(192,083)	(310,259)	(502,342)
Interest payments	(96,266)	(184,166)	(280,432)
Fiduciary fees	(10,077)	-	(10,077)
Capital purchases	(147,811)	(3,456,117)	(3,603,928)
Capital contributions	-	2,255,800	2,255,800
Net cash provided by (used in) capital and related financing activities	<u>(446,237)</u>	<u>616,391</u>	<u>170,154</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	10,099	2,746	12,845
Net cash provided by investing activities	<u>10,099</u>	<u>2,746</u>	<u>12,845</u>
Increase in cash and cash equivalents	794,313	981,144	1,775,457
Cash and cash equivalents, June 30, 2013	<u>3,490,498</u>	<u>1,124,251</u>	<u>4,614,749</u>
Cash and cash equivalents, June 30, 2014	<u>\$ 4,284,811</u>	<u>\$ 2,105,395</u>	<u>\$ 6,390,206</u>

**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, 2014**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Electric Fund</u>	<u>Gas, Water and Sewer Fund</u>	<u>Total</u>
Reconciliations of operating income to net cash provided by operating activities -			
Operating income	\$ 818,546	\$ 4,939	\$ 823,485
Adjustment to reconcile operating income to net cash provided by operating activities -			
Depreciation	242,972	548,007	790,979
Changes in assets and liabilities -			
Customer accounts receivable	10,913	(11,082)	(169)
Other receivable	449,024	6,300	455,324
Interfund receivable	38,998	-	38,998
Prepaid insurance	(14,653)	(9,769)	(24,422)
Supplies inventories	(52,296)	(3,689)	(55,985)
Accounts payable	18,280	(7,028)	11,252
Interfund payable	-	(38,998)	(38,998)
Accrued payroll and payroll items	957	3,315	4,272
Other accrued liabilities	3,494	383	3,877
Deposits	-	(1,975)	(1,975)
Total adjustments	<u>697,689</u>	<u>485,464</u>	<u>1,183,153</u>
Net cash provided by operating activities	<u>\$ 1,516,235</u>	<u>\$ 490,403</u>	<u>\$ 2,006,638</u>
Reconciliation of cash:			
Cash	\$ 1,806,820	\$ 84,169	\$ 1,890,989
Restricted cash	2,477,991	2,021,226	4,499,217
Total cash and cash equivalents	<u>\$ 4,284,811</u>	<u>\$ 2,105,395</u>	<u>\$ 6,390,206</u>
Non-cash item:			
Principal grants on debt	-	475,440	475,440

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, 2014**

(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, 2014 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.

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, 2014 was \$790,979.

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. Capitalized interest was \$4,750 for the year ended June 30, 2014. Interest expense on notes and bonds payable in subsequent years is expensed currently. Current year interest expense was \$281,009.

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 \$2,723,340 in grants for the year ended June 30, 2014.

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 \$7,900 for the year ended June 30, 2014.

Net Position and Fund Equity

In the proprietary funds financial statements, net position is reported in three categories: net position invested in capital assets, net of related debt; 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

The Board adopted GASB 65, *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2013. GASB 65 requires that debt issuance costs be expensed in the period they are incurred.

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued in March 2012. The provisions of this statement are effective for periods beginning after December 15, 2012. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows of resources, deferred inflows of resources, or current-period outflows and inflows. The Board has restated current year financials to recognize the remaining loan costs that were being amortized in accordance with GASB No. 65. See Note 10.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, was issued in June 2012. The provisions of this Statement are effective for periods after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The Board's management has not yet determined the effect this Statement will have on the financial statements.

GASB Statement No. 71, *Accounting and Financial Reporting for Pensions*, was issued in June 2012. The Provisions of this Statement are effective for periods beginning after June 15, 2014. The issue relates to amounts associated with contributions, if any, made by a state or legal government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The Board's management has not yet determined the effect this Statement will have on the 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, 2014, the carrying amount of the Board's deposits with financial institutions, including petty cash, was \$6,390,206, and the bank balance was \$6,465,068. Of the bank balance, \$750,000 was covered by federal depository insurance, \$3,401,302 was collateralized by securities held by the pledging financial institution's trust department or agent, in the Board's name and the remaining balance of \$2,313,766 was uninsured and uncollateralized.

(3) CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2014 were as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Nondepreciable assets:				
Land	\$ 199,650	\$ -	\$ -	\$ 199,650
Construction in progress	1,612,798	3,511,142	4,328,301	795,639
Total	<u>1,812,448</u>	<u>3,511,142</u>	<u>4,328,301</u>	<u>995,289</u>
Depreciable assets:				
Structures and improvements	396,260	-	-	396,260
Utility plant	27,960,583	4,345,130	-	32,305,713
Machinery and equipment	2,603,533	75,957	-	2,679,490
Total	<u>30,960,376</u>	<u>4,421,087</u>	<u>-</u>	<u>35,381,463</u>
Total capital assets	<u>32,772,824</u>	<u>7,932,229</u>	<u>4,328,301</u>	<u>36,376,752</u>
Less: accumulated depreciation for:				
Structures and improvements	(227,037)	(13,218)	-	(240,255)
Utility plant	(10,838,015)	(700,351)	-	(11,538,366)
Machinery and equipment	(2,407,458)	(77,410)	-	(2,484,868)
Total accumulated depreciation	<u>(13,472,510)</u>	<u>(790,979)</u>	<u>-</u>	<u>(14,263,489)</u>
Capital assets, net	<u>\$ 19,300,314</u>	<u>\$ 7,141,250</u>	<u>\$ 4,328,301</u>	<u>\$ 22,113,263</u>

Depreciation expense was charged to operations as follows:

Electric Fund	\$ 242,972
Gas, Water and Sewer fund	548,007
	<u>\$ 790,979</u>

(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 Position - Proprietary Funds as transfers from these funds to the City as follows:

Electric fund	\$ 285,784
Gas, water and sewer fund	128,396
	<u>\$ 414,180</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, 2014:

	Beginning Balance	Additional Proceeds	Reductions/ Payments	Ending Balance	Due Within One Year
Bonds payable:					
Gas, water and sewer fund	\$ 4,196,917	\$ -	\$ 93,652	\$ 4,103,265	\$ 97,590

Loans payable:					
Electric fund	3,850,833	-	192,083	3,658,750	197,083
Gas, water and sewer fund	280,494	2,311,133	692,047	1,899,580	70,828
	<u>4,131,327</u>	<u>2,311,133</u>	<u>884,130</u>	<u>5,558,330</u>	<u>267,911</u>
Total long-term liabilities	<u>\$ 8,328,244</u>	<u>\$ 2,311,133</u>	<u>\$ 977,782</u>	<u>\$ 9,661,595</u>	<u>\$ 365,501</u>

Bonds Payable

At June 30, 2014, 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	\$ 465,000
04/21/1992	01/01/2031	5.00	84,000	54,500
07/20/1993	01/01/2033	5.00	200,000	142,500
06/03/1996	01/01/2035	4.50	400,000	297,500
12/20/1996	01/01/2033	5.00	248,300	188,365
01/21/2000	01/01/2039	3.25	469,000	385,000
02/14/2001	01/01/2040	3.25	1,008,000	809,000
09/10/2003	01/01/2043	4.25	1,515,000	1,344,500
03/09/2007	01/01/2046	4.125	250,000	231,000
03/09/2007	01/01/2046	4.125	200,000	185,900
			<u>\$ 5,068,300</u>	<u>\$ 4,103,265</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:

Fiscal Year	Principal	Interest	Total
2015	\$ 97,590	\$ 172,424	\$ 270,014
2016	102,954	168,268	271,222
2017	106,332	163,879	270,211
2018	111,224	159,339	270,563
2019	115,730	154,585	270,315
2020 - 2024	661,507	694,050	1,355,557
2025 - 2029	820,114	539,054	1,359,168
2030 - 2034	859,368	353,193	1,212,561
2035 - 2039	743,446	190,412	933,858
2040 - 2044	440,300	57,184	497,484
2045 - 2046	44,700	2,780	47,480
	<u>\$ 4,103,265</u>	<u>\$ 2,655,168</u>	<u>\$ 6,758,433</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 has a balance of \$160,970 at June 30, 2014.

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, 2014 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, 2014, the outstanding balance on the loan was \$3,658,750. The 2002 electric bond that was paid off with this issuance had an outstanding balance of \$3,915,000. By refinancing the 2002 bond, the Board will save \$1,241,895 over the life of the 2012 lease. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 197,083	\$ 92,425	\$ 289,508
2016	202,083	88,483	290,566
2017	207,083	84,412	291,495
2018	212,083	80,300	292,383
2019	215,000	76,058	291,058
2020 - 2024	1,152,501	308,931	1,461,432
2025 - 2029	1,306,667	146,471	1,453,138
2030	166,250	5,224	171,474
	<u>\$ 3,658,750</u>	<u>\$ 882,304</u>	<u>\$ 4,541,054</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, 2014, the outstanding balance of the loan was \$83,306. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 11,463	\$ 3,217	\$ 14,680
2016	11,926	2,754	14,680
2017	12,407	2,273	14,680
2018	12,908	1,772	14,680
2019	13,431	1,249	14,680
2020 - 2022	21,171	851	22,022
	<u>\$ 83,306</u>	<u>\$ 12,116</u>	<u>\$ 95,422</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. At June 30, 2014 the Board had \$1,271,520 (net of grant forgiveness of \$475,440) borrowed from the Kentucky Infrastructure Authority at 1%. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 59,365	\$ 12,568	\$ 71,933
2016	59,961	11,972	71,933
2017	60,562	11,371	71,933
2018	61,169	10,764	71,933
2019	61,782	10,151	71,933
2020 - 2024	318,326	41,337	359,663
2025 - 2029	334,605	25,058	359,663
2030 - 2034	315,750	7,946	323,696
	<u>\$ 1,271,520</u>	<u>\$ 131,167</u>	<u>\$ 1,402,687</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. At June 30, 2014 the Board had \$544,754 (net of grant forgiveness of \$181,584) borrowed from the Kentucky Infrastructure Authority at 0.75%. This loan will be replaced with permanent financing at the completion of the project.

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. No funds have been spent as of the date of the financial statements.

(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 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 18.89% 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, 2014, 2013, and 2012 was \$152,024, \$154,377, and \$147,752, 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 initiated 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 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.

(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 POSITION				
Assets:				
Current assets	\$ 504,943	\$ 1,627,328	\$ 321,772	\$ 2,454,043
Capital assets	9,870,701	5,635,387	97,581	15,603,669
Total assets	<u>\$ 10,375,644</u>	<u>\$ 7,262,715</u>	<u>\$ 419,353</u>	<u>\$ 18,057,712</u>
Liabilities:				
Other current liabilities	\$ 499,713	\$ 667,503	\$ 176,692	\$ 1,343,908
Noncurrent liabilities	4,051,429	1,782,998	-	5,834,427
Total liabilities	<u>4,551,142</u>	<u>2,450,501</u>	<u>176,692</u>	<u>7,178,335</u>
Net position:				
Net investment in capital assets	5,742,182	3,761,061	97,581	9,600,824
Other restricted	233,920	1,556,683	143,127	1,933,730
Unrestricted	(151,600)	(505,530)	1,953	(655,177)
Total net position	<u>5,824,502</u>	<u>4,812,214</u>	<u>242,661</u>	<u>10,879,377</u>
	<u>\$ 10,375,644</u>	<u>\$ 7,262,715</u>	<u>\$ 419,353</u>	<u>\$ 18,057,712</u>

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

Operating revenues (pledged against bonds)	\$ 1,041,094	\$ 345,152	\$ 1,052,112	\$ 2,438,358
Depreciation expense	(365,095)	(168,197)	(14,715)	(548,007)
Other operating expenses	(658,257)	(302,492)	(924,663)	(1,885,412)
Operating gain (loss)	17,742	(125,537)	112,734	4,939
Non-operating revenues (expenses):				
Investment income	581	1,511	457	2,549
Interest expense	(147,609)	(37,449)	-	(185,058)
Capital contributions	188,584	2,541,756	900	2,731,240
Transfers out	(62,127)	(16,567)	(49,702)	(128,396)
Change in net position	(2,829)	2,363,714	64,389	2,425,274
Transfer capital assets	124,484	(125,245)	761	-
Beginning net position, as restated	5,702,847	2,573,745	177,511	8,454,103
Ending net position	<u>\$ 5,824,502</u>	<u>\$ 4,812,214</u>	<u>\$ 242,661</u>	<u>\$ 10,879,377</u>

CONDENSED STATEMENT OF CASH FLOWS

NET CASH PROVIDED BY (USED BY):

Operating activities	\$ 314,208	\$ 116,226	\$ 59,969	\$ 490,403
Noncapital financing activities	(62,127)	(16,567)	(49,702)	(128,396)
Capital and related financing activities	(241,354)	869,124	(11,379)	616,391
Investing activities	603	1,532	611	2,746
Net increase (decrease)	11,330	970,315	(501)	981,144
Beginning cash	294,413	602,040	227,798	1,124,251
Ending cash	<u>\$ 305,743</u>	<u>\$ 1,572,355</u>	<u>\$ 227,297</u>	<u>\$ 2,105,395</u>

(10) CHANGES IN BEGINNING NET POSITION

Governmental Accounting Standards Board No. 65 required changes to the beginning balances of the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds. Beginning net position decreased \$199,968 and \$67,119 for the Electric Fund and the Gas, Water and Sewer Fund, respectively to expense bond issuance costs capitalized prior to the 2013-2014 fiscal year.

SUPPLEMENTARY 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, 2014**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency Pass-Through Number</u>	<u>Expenditures</u>
<u>Department of Commerce:</u>			
Economic Adjustment Assistance	11.307	04-79-06561	\$ 2,066,316 *
Total Department of Commerce			<u>2,066,316</u>
<u>Environmental Protection Agency:</u>			
Capitalization Grants for Clean Water State Revolving Funds	66.458	A11-06	1,584,794 *
Capitalization Grants for Clean Water State Revolving Funds	66.458	F13-032	<u>726,339 *</u>
Total Environmental Protection Agency			<u>2,311,133</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u>\$ 4,377,449</u>

* Denotes major program.

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Electric Plant Board of the City of Vanceburg, Kentucky under the programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Board, it is not intended to and does not present the financial position, changes in net position or cash flows of the Board.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.



**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, and OMB Circular A-133, 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, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated October 31, 2014.

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 Galbreath Smith Goolsby, PSC

October 31, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Electric Plant Board of the City of Vanceburg, Kentucky, a component unit of the City of Vanceburg, Kentucky's (the "Board") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended June 30, 2014. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kelley Gallaway Smith Goolsby, PSC

October 31, 2014

**ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

Type of audit auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ yes x no

The Board had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2014:

Capitalization Grants for Clean Water State Revolving Fund (66.458)
Economic Adjustment Assistance (11.307)

Dollar threshold to distinguish between Type A and Type B Programs: \$ 300,000

The District qualified as a low risk auditee _____ yes x no

(B) FINANCIAL STATEMENT FINDINGS

None noted in the current year.

(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the current year.

**ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no findings in the prior year.

**ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

No corrective action plan needed in the current year.