ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG, KENTUCKY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

****

****

KGSG
Kelley Galloway
Smith Goolsby, 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
• Web www.kgsgcpa.com Member of Allinial GLOBAL

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, 2016, 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, 2016, 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

Accounting principles generally accepted in the United States of America require that the Schedule of the Board's Proportionate Share of the Net Pension Liability and the Schedule of Pension Contributions on pages 23 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency in management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
October 7, 2016

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, 2016

	Business-Type Activities - Enterprise Funds		
	Electric Fund	Gas, Water and Sewer Fund	Total
ASSETS			
Current assets-			
Unrestricted:			
Cash	$ 1,871,788	$ 84,435	$ 1,956,223
Customer accounts receivable, net	746,772	192,929	939,701
Other accounts receivable	75,867	-	75,867
Interfund receivables	968,651	-	968,651
Accrued interest receivable	1,287	-	1,287
Prepaids	13,243	8,829	22,072
Supplies inventories	304,517	92,194	396,711
Total unrestricted current assets	3,982,125	378,387	4,360,512
Restricted:			
Cash	1,581,970	1,533,449	3,115,419
Total restricted current assets	1,581,970	1,533,449	3,115,419
Total current assets	5,564,095	1,911,836	7,475,931
Capital assets:			
Land	16,134	192,486	208,620
Structures and improvements	195,110	224,456	419,566
Utility plant	10,765,414	23,894,565	34,659,979
Machinery and equipment	1,762,515	1,000,973	2,763,488
Construction in progress	-	-	-
	12,739,173	25,312,480	38,051,653
Less: Accumulated depreciation	(6,607,799)	(9,356,006)	(15,963,805)
Capital assets, net	6,131,374	15,956,474	22,087,848
Total assets	11,695,469	17,868,310	29,563,779
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	146,891	159,099	305,990
Total deferred outflows of resources	146,891	159,099	305,990
Total assets and deferred outflows of resources	$ 11,842,360	$ 18,027,409	$ 29,869,769

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, 2016

	Business-Type Activities - Enterprise Funds		
	Electric Fund	Gas, Water and Sewer Fund	Total
LIABILITIES			
Current liabilities-			
Unrestricted:			
(payable from current assets)			
Accounts payable	$ 395,033	$ 19,343	$ 414,376
Accrued payroll and payroll items	39,433	40,457	79,890
Interfund payable	-	968,651	968,651
Other accrued liabilities	45,074	3,145	48,219
Total unrestricted current liabilities (payable from current assets)	479,540	1,031,596	1,511,136
Restricted:			
(payable from restricted assets)			
Customer deposits	-	128,195	128,195
Accrued interest payable	7,179	28,676	35,855
Current portion of long-term debt obligations	207,083	261,439	468,522
Total restricted current liabilities (payable from restricted assets)	214,262	418,310	632,572
Total current liabilities	693,802	1,449,906	2,143,708
Long-term debt obligations, less current portion, net of discount	3,052,500	5,907,100	8,959,600
Net pension liability	790,151	748,808	1,538,959
Total non-current liabilities	3,842,651	6,655,908	10,498,559
Total liabilities	4,536,453	8,105,814	12,642,267
DEFERRED INFLOWS OF RESOURCES			
Deferred earnings on pension investments	-	-	-
Total deferred inflows of resources	-	-	-
NET POSITION			
Net investment in capital assets	2,871,791	9,787,935	12,659,726
Restricted for debt retirement	1,549,206	1,433,118	2,982,324
Restricted for other purposes	25,585	71,655	97,240
Unrestricted	2,859,325	(1,371,113)	1,488,212
Total net position	7,305,907	9,921,595	17,227,502
Total liabilities, deferred inflows of resources, and net position	$ 11,842,360	$ 18,027,409	$ 29,869,769

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, 2016

	Business-Type Activities - Enterprise Funds		
	Electric Fund	Gas, Water and Sewer Fund	Total
OPERATING REVENUES			
Sales of light and power	$ 7,360,958	$ -	$ 7,360,958
Sales of gas, water and sewer	-	2,097,166	2,097,166
Total operating revenues	7,360,958	2,097,166	9,458,124
OPERATING EXPENSES			
Cost of purchased power	5,227,280	-	5,227,280
Cost of purchased natural gas	-	385,597	385,597
Maintenance, operations and administration	1,145,159	1,367,517	2,512,676
Depreciation	244,014	599,973	843,987
Total operating expenses	6,616,453	2,353,087	8,969,540
Operating income (loss)	744,505	(255,921)	488,584
NON-OPERATING REVENUES (EXPENSES)			
Interest income	8,598	3,227	11,825
Interest expense	(89,407)	(69,516)	(158,923)
Capital grants	-	335,280	335,280
Fiduciary fees	(9,104)	-	(9,104)
Total non-operating income (expense)	(89,913)	268,991	179,078
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	654,592	13,070	667,662
Capital contributions	-	10,500	10,500
Transfers Out	(310,800)	(139,440)	(450,240)
CHANGE IN NET POSITION	343,792	(115,870)	227,922
NET POSITION, JUNE 30, 2015	6,962,115	10,037,465	16,999,580
NET POSITION, JUNE 30, 2016	$ 7,305,907	$ 9,921,595	$ 17,227,502

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, 2016

	Business-Type Activities - Enterprise Funds		
	Electric Fund	Gas, Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 7,332,270	$ 2,116,779	$ 9,449,049
Payments to suppliers	(7,327,308)	(1,229,610)	(8,556,918)
Payments to employees	(364,284)	(373,488)	(737,772)
Net cash provided by (used in) operating activities	(359,322)	513,681	154,359
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers out	(310,800)	(139,440)	(450,240)
Net cash used in non-capital financing activities	(310,800)	(139,440)	(450,240)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from long-term debt	-	685,380	685,380
Principal payments on long-term debt	(202,084)	(598,875)	(800,959)
Interest payments	(89,741)	(116,550)	(206,291)
Fiduciary fees	(9,104)	-	(9,104)
Capital purchases	(10,000)	(1,227,855)	(1,237,855)
Capital contributions	-	345,780	345,780
Net cash used in capital and related financing activities	(310,929)	(912,120)	(1,223,049)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	9,442	3,227	12,669
Net cash provided by investing activities	9,442	3,227	12,669
Decrease in cash and cash equivalents	(971,609)	(534,652)	(1,506,261)
Cash and cash equivalents, June 30, 2015	4,425,367	2,152,536	6,577,903
Cash and cash equivalents, June 30, 2016	$ 3,453,758	$ 1,617,884	$ 5,071,642

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, 2016

	Business-Type Activities - Enterprise Funds		
Reconciliations of operating loss to net cash	Electric Fund	Gas, Water and Sewer Fund	Total
provided by (used in) operating activities -			
Operating income (loss)	$ 744,505	$ (255,921)	$ 488,584
Adjustment to reconcile operating loss to			
net cash provided by (used in) operating activities -			
Depreciation	244,014	599,973	843,987
Net pension adjustment	48,685	64,476	113,161
Changes in assets and liabilities -			
Customer accounts receivable	47,179	20,063	67,242
Other accounts receivable	(75,867)	-	(75,867)
Interfund receivable	(100,044)	-	(100,044)
Prepaid insurance	(13,243)	(8,829)	(22,072)
Supplies inventories	(11,079)	(1,187)	(12,266)
Accounts payable	(1,237,737)	(3,446)	(1,241,183)
Interfund payable	-	100,044	100,044
Accrued payroll and payroll liabilities	2,211	(354)	1,857
Other accrued liabilities	(7,946)	(688)	(8,634)
Deposits	-	(450)	(450)
Total adjustments	(1,103,827)	769,602	(334,225)
Net cash provided by (used in) operating activities	$ (359,322)	$ 513,681	$ 154,359
Reconciliation of cash:			
Cash	$ 1,871,788	$ 84,435	$ 1,956,223
Restricted cash	1,581,970	1,533,449	3,115,419
Total cash and cash equivalents	$ 3,453,758	$ 1,617,884	$ 5,071,642
Non-cash items:			
Principal grants on debt	$ -	$ 335,280	$ 335,280

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 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, 2016 the allowance for uncollectible accounts was $100,000.

Unbilled service receivables are not accrued at year-end.

Inventories

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

Restricted Assets

Certain proceeds of the Board's bond obligations, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

In the absence of specific statutory provisions governing the issuance of bonds, these bond monies may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the Board's general investment policy. In no instance have additional types of investments been authorized that are not permitted by the Board's general investment policy.

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

Capital Assets

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

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

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

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, 2016 was $843,987.

Long-Term Liabilities

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

Interest Expense

Interest expense incurred during the construction of financed projects is capitalized during the construction period. There was no capitalized interest recorded for the year ended June 30, 2016. Current year interest expense was $158,923.

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 $335,280 in grants for the year ended June 30, 2016.

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 $10,500 for the year ended June 30, 2016.

Net Position and Fund Equity

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

Bond Issuance Costs

GASB 65 requires that debt issuance costs be expensed in the period they are incurred. There were no bond issuance costs for the year ended June 30, 2016.

Deferred Outflows/Inflows of Resources

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

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

Pension

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

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

Recent Accounting Pronouncements

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), which addresses accounting and financial reporting issues related to fair value measurements. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes and the related disclosures. It requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value and establishes a hierarchy of inputs to valuation techniques used to measure fair value. GASB 72 also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The adoption of this standard did not have a material effect on the Board's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans.* It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits ("OPEB"). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the Board beginning with its year ending June 30, 2018.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and reduces the GAAP hierarchy to two categories of authoritative GAAP. The adoption of this standard did not have a material effect on the Board's financial statements.

In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 82, *Pension Issues,* which addresses issues that arose during the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* This pronouncement is effective for years ending June 30, 2017.

(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, 2016, the carrying amount of the Board's deposits with financial institutions, including petty cash, was $5,071,642, and the bank balance was $5,138,913. Of the bank balance, $750,000 was covered by federal depository insurance, $2,388,913 was collateralized by securities held by the pledging financial institution's trust department or agent in the board's name, and $2,000,000 was collateralized by a letter of credit in the bank's name with another independent bank with the Board listed as the Beneficiary.

(3) CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Nondepreciable assets:				
Land	$ 208,620	$ -	$ -	$ 208,620
Construction in progress	218,197	-	218,197	-
Total	426,817	-	218,197	208,620
Depreciable assets:				
Structures and improvements	409,566	10,000	-	419,566
Utility plant	33,223,932	1,436,047	-	34,659,979
Machinery and equipment	2,753,483	10,005	-	2,763,488
Total	36,386,981	1,456,052	-	37,843,033
Total capital assets	36,813,798	1,456,052	218,197	38,051,653
Less: accumulated depreciation for:				
Structures and improvements	(251,856)	(11,961)	-	(263,817)
Utility plant	(12,299,820)	(767,703)	-	(13,067,523)
Machinery and equipment	(2,568,142)	(64,323)	-	(2,632,465)

Total accumulated depreciation	(15,119,818)	(843,987)	-	(15,963,805)
Capital assets, net	$ 21,693,980	$ 612,065	$ 218,197	$ 22,087,848

Depreciation expense was charged to operations as follows:

Electric Fund	$ 244,014
Gas, Water and Sewer fund	599,973
	$ 843,987

(4) TRANSFERS

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

Electric fund	$ 310,800
Gas, water and sewer fund	139,440
	$ 450,240

(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, 2016:

	Beginning Balance	Additional Proceeds	Reductions/ Payments	Ending Balance	Due Within One Year
Bonds payable:					
Gas, water and sewer fund	$ 4,145,000	$ -	$ 163,750	$ 3,981,250	$ 138,083
Less: Discounts on bonds	(37,582)	-	(1,529)	(36,053)	-
	4,107,418	-	162,221	3,945,197	138,083
Loans payable:					
Electric fund	3,461,667	-	202,084	3,259,583	207,083
Gas, water and sewer fund	1,973,087	685,380	435,125	2,223,342	123,356
	5,434,754	685,380	637,209	5,482,925	330,439
Total long-term liabilities	$ 9,542,172	$ 685,380	$ 799,430	$ 9,428,122	$ 468,522

Bonds Payable

At June 30, 2016, bonds payable consisted of the following water and sewer revenue bonds:

Date Issued	Final Maturity	Interest Rate	Authorized and Issued	Outstanding
01/21/2000	01/01/2039	3.25	$ 469,000	$ 367,000
02/14/2001	01/01/2040	3.25	1,008,000	768,000
11/20/2014	02/01/2040	2.00-3.75	2,980,000	2,846,250
			$ 4,457,000	$ 3,981,250

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

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

Fiscal Year		Principal		Interest		Total
2017	$	138,083	$	125,563	$	263,646
2018		144,083		122,414		266,497
2019		148,000		119,132		267,132
2020		152,083		115,760		267,843
2021		155,000		111,781		266,781
2022 - 2026		848,333		484,787		1,333,120
2027 - 2031		981,667		345,006		1,326,673
2032 - 2036		815,583		190,353		1,005,936
2037 - 2041		598,418		49,957		648,375
	$	3,981,250	$	1,664,753	$	5,646,003

Under the provisions of the Bond Ordinances authorizing the 1999 and 2000 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 $161,778 at June 30, 2016.

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, 2016 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, 2016, the outstanding balance on the loan was $3,259,583. Debt service requirements to maturity are as follows:

Fiscal Year		Principal		Interest		Total
2017	$	207,083	$	93,011	$	300,094
2018		212,083		88,381		300,464
2019		215,000		83,609		298,609
2020		217,083		78,772		295,855
2021		224,167		73,773		297,940
2022 - 2026		1,210,417		274,872		1,485,289
2027 - 2031		973,750		77,668		1,051,418
	$	3,259,583	$	770,086	$	4,029,669

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, 2016, the outstanding balance of the loan was $60,378. Debt service requirements to maturity are as follows:

Fiscal Year		Principal		Interest		Total
2017	$	12,407	$	2,273	$	14,680
2018		12,908		1,772		14,680
2019		13,431		1,249		14,680

2020	13,973	707	14,680
2021	7,659	143	7,802
	$ 60,378	$ 6,144	$ 66,522

Kentucky Infrastructure Authority Project A11-06 – On August 31, 2012, the City of Vanceburg for the benefit of the Vanceburg Electric Plant Board entered into a Clean Water SRF construction loan in the amount of $2,000,000 for the CSO Renovation project. Funding will be utilized for the first phase of a two phase project to eliminate sewer over flows from the sanitary sewer system. The term of the loan is 20 years. The interest rate is fixed at 1%. The terms state that 30% of the total principal balance (or $600,000) will be forgiven. The terms of the loan state conditions that must be met by the Board, one of which being a schedule of rate increases for sewer and water rates through 2014. As part of the loan underwriting the Board is to make an annual deposit on December 1st into a replacement cost account that the Board maintains in the amount of $5,000 until the balance reaches $50,000; the Board has funded the full $50,000 upfront. At June 30, 2016, the Board had $1,245,950 (net of grant forgiveness of $600,000) borrowed from the Kentucky Infrastructure Authority at 1%. Debt service requirements to maturity are as follows (subject to change with additional draws):

Fiscal Year	Principal	Interest	Total
2017	$ 65,490	$ 12,296	$ 77,786
2018	66,146	11,640	77,786
2019	66,809	10,977	77,786
2020	67,479	10,307	77,786
2021	68,156	9,630	77,786
2022 - 2026	351,165	37,765	388,930
2027 - 2031	369,123	19,806	288,929
2032 - 2036	191,582	2,883	194,465
	$ 1,245,950	$ 115,304	$ 1,361,254

Kentucky Infrastructure Authority Project F13-032 – On October 1, 2013, the City of Vanceburg for the benefit of the Vanceburg Electric Plant Board entered into a Clean Water construction loan in the amount of $850,000 for drinking water supply project. Funding will be utilized for the construction of a new raw water production well and SCADA system and the installation of approximately 1,550 radio read meters. The well will enhance the water supply for the city and facilitate the future proposed interconnection of the area water systems. The radio read meters will be installed at rural customer locations that do not have other city utility services. The terms of the loan are undetermined. The interest rate is fixed at 0.75%. The terms state that 25% of the total principal balance (or $212,500) will be forgiven. The terms of the loan state conditions that must be met by the Board, one of which being a schedule of rate increases for sewer and water rates through 2014. As part of the loan underwriting the Board is to make an annual deposit on December 1st into a replacement cost account that the Board maintains in the amount of $2,100 until the balance reaches $21,000; the Board has funded the full $21,000 upfront. At June 30, 2016 the Board had $592,842 (net of grant forgiveness of $212,470) borrowed from the Kentucky Infrastructure Authority at 0.75%. Debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 29,990	$ 4,390	$ 34,380
2018	30,215	4,165	34,380
2019	30,442	3,938	34,380
2020	30,672	3,708	34,380
2021	30,901	3,479	34,380
2022 - 2026	158,025	13,875	171,900
2027 - 2031	164,052	7,848	171,900
2032 - 2036	118,545	1,785	120,330
	$ 592,842	$ 43,188	$ 636,030

Kentucky Infrastructure Authority Project A14-002 - On April 3, 2014, the City of Vanceburg for the benefit of the Vanceburg Electric Plant Board was approved by the KIA for a new $665,000 loan. Funding will be utilized for the Wastewater Treatment Plan Rehabilitation project. The project involves replacement of various components including influent flow meter, chart recorder, auto refrigerated composite sampler blowers, motors, control panel, and sewage pump. The clarifier will be repaired. Modifications will be made to the grit removal system and new chlorine, sulfur dioxide feeds and a new sludge drying bed will also be added. Repair or replacement of 660 linear feet of 12 inch sewer lines will be made to correct inflow and infiltration issues. Terms of the loan have not been determined. As part of the loan underwriting the Board is to make an annual deposit on December 1st into a replacement cost account that the Board maintains in the amount of $1,700 until the balance reaches $17,000; the Board has funded the full $17,000 upfront. At June 30, 2016, the Board had $324,171 (net of grant forgiveness of $332,500) borrowed from Kentucky Infrastructure Authority at 0.75%. Debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 15,469	$ 2,455	$ 17,924
2018	15,585	2,349	17,934
2019	15,703	2,231	17,934
2020	15,821	2,113	17,934
2021	15,940	1,995	17,935
2022 - 2026	81,512	8,158	89,670
2027 - 2031	84,621	5,049	89,670
2032 - 2036	79,521	1,722	81,243
	$ 324,172	$ 26,072	$ 350,244

(6) PENSION PLAN

County Employees Retirement System

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

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

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

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions. and by employers of members who contribute 17.06% (12.42% - pension, 4.64% insurance) of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS - Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years - 0%, 4-9 years - 25%, 10-14 years - 50%, 15-19 years - 75% and 20 or more years - 100%.

As of June 30, 2015, the date of the latest actuarial valuation, the plan had 82,969 active plan participants.

Contribution requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed in above.

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2015 was as follows:

	000's omitted
Total medical benefit obligation	$ 2,907,827
Net position available for benefits at actuarial value	(1,997,456)
Unfunded medical benefit obligation	$ 910,371

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2016, the Board reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2015 was determined using standard roll-forward techniques. The Board's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2015. At June 30 2015, the Board's proportion was 0.035794%.

For the year ended June 30, 2016, the Board recognized pension expense of $113,161. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 12,789	$ -
Changes of assumptions	155,189	-
Net difference between projected and actual earnings on pension plan investments	13,796	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	18,413	-
Board contributions subsequent to the measurement date	105,803	-
Total	$ 305,990	$ -

At June 30, 2016, the Board reported deferred outflows of resources for Board contributions subsequent to the measurement date of $105,803. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year	
2017	$ 69,606
2018	69,606
2019	33,220
2020	27,755
2021	-
	$ 200,187

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of

June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44.0%	5.40%

Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	(0.25)%
	100.0%	

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate: The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
Board's proportionate share of the net pension liability	$ 1,964,689	$ 1,538,959	$ 1,174,383

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

Payables to the pension plan: At June 30, 2016, the payables to CERS were $18,398.

(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	$ 525,845	$ 1,125,038	$ 260,953	$ 1,911,836
Capital assets	9,238,446	6,620,328	97,700	15,956,474
Total assets	9,764,291	7,745,366	358,653	17,868,310
Deferred outflows of resources:				
Deferred pension contributions	83,366	34,661	41,072	159,099
Total deferred outflows of resources	83,366	34,661	41,072	159,099
Total assets and deferred outflows of resources	$ 9,847,657	$ 7,780,027	$ 399,725	$ 18,027,409
Liabilities:				
Other current liabilities	$ 312,353	$ 1,061,125	$ 76,428	$ 1,449,906
Noncurrent liabilities	4,266,519	2,196,628	192,761	6,655,908
Total liabilities	4,578,872	3,257,753	269,189	8,105,814
Deferred inflows of resources:				
Deferred earnings on pension investments	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Net position:				
Net investment in capital assets	5,202,307	4,487,927	97,701	9,787,935
Other restricted	303,275	1,062,128	139,370	1,504,773
Unrestricted	(236,797)	(1,027,781)	(106,535)	(1,371,113)
Total net position	5,268,785	4,522,274	130,536	9,921,595
Total liabilities, deferred inflow of resources and net position	$ 9,847,657	$ 7,780,027	$ 399,725	$ 18,027,409

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

Operating revenues (pledged against bonds)	$ 1,065,400	$ 343,602	$ 688,164	$ 2,097,166
Depreciation expense	(383,576)	(204,616)	(11,781)	(599,973)
Other operating expenses	(669,044)	(420,118)	(663,952)	(1,753,114)
Operating gain (loss)	12,780	(281,132)	12,431	(255,921)
Non-operating revenues (expenses):				
Investment income	781	1,819	627	3,227
Interest expense	(68,010)	(1,506)	-	(69,516)
Capital contributions	20,409	324,171	1,200	345,780
Transfers out	(67,560)	(18,000)	(53,880)	(139,440)
Change in net position	(101,600)	25,352	(39,622)	(115,870)
Beginning net position	5,370,385	4,496,922	170,158	10,037,465
Ending net position	$ 5,268,985	$ 4,522,274	$ 130,536	$ 9,921,595

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

Operating activities	$ 329,244	$ 137,203	$ 47,234	$ 513,681
Noncapital financing activities	(67,560)	(18,000)	(53,880)	(139,440)
Capital and related financing activities	(261,655)	(651,665)	1,200	(912,120)
Investing activities	781	1,819	627	3,227
Net increase (decrease)	810	(530,643)	(4,819)	(534,652)
Beginning cash	327,409	1,596,503	228,624	2,152,536
Ending cash	$ 328,219	$ 1,065,860	$ 223,805	$ 1,617,884

REQUIRED SUPPLEMENTARY INFORMATION

ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016

	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
Board's proportion of the net pension liability	0.035794%	0.035080%
Board's proportionate share of the net pension liability	$ 1,538,959	$ 1,138,000
Board's covered-employee payroll	$ 851,876	$ 821,688
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	180.655%	138.495%
Plan fiduciary net position as a percentage of the total pension liability	59.970%	66.800%

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

ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015	2014
COUNTY EMPLOYEES RETIREMENT SYSTEM:			
Contractually required contribution	$ 105,803	$ 104,771	$ 110,582
Contributions in relation to the contractually required contribution	105,803	104,771	110,582
Contribution deficiency (excess)	-	-	-
Board's covered-employee payroll	$ 851,876	$ 821,688	$ 804,786
Board's contributions as a percentage of its covered-employee payroll	12.42%	12.75%	13.74%

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

(1) CHANGES OF ASSUMPTIONS

CERS

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

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

CERS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2016 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.

Kelley Galloway Smith Goolsby, 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
• Web www.kgsgcpa.com Member of Allinial GLOBAL

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Electric Plant Board of the City of Vanceburg, Kentucky, a component unit of the City of Vanceburg, Kentucky (the "Board"), as of and for the year ended June 30, 2016, 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 7, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
October 7, 2016