

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

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Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2013, 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, 2013, 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information 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. The 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, 2013, 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, Dalloway & Company, PSC

October 31, 2013

**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, 2013**

Business-Type Activities - Enterprise Funds

ASSETS	<u>Electric Fund</u>	<u>Gas, Water and Sewer Fund</u>	<u>Total</u>
Current assets-			
Unrestricted:			
Cash	\$ 1,726,804	\$ 83,772	\$ 1,810,576
Customer accounts receivable, net	742,850	250,583	993,433
Other receivable	449,024	6,300	455,324
Interfund receivable	920,891	-	920,891
Accrued interest receivable	2,605	448	3,053
Supplies inventories	268,376	73,274	341,650
Total unrestricted current assets	<u>4,110,550</u>	<u>414,377</u>	<u>4,524,927</u>
Restricted:			
Cash	<u>1,763,694</u>	<u>1,040,479</u>	<u>2,804,173</u>
Total restricted current assets	<u>1,763,694</u>	<u>1,040,479</u>	<u>2,804,173</u>
 Total current assets	 <u>5,874,244</u>	 <u>1,454,856</u>	 <u>7,329,100</u>
Capital assets:			
Land	16,134	183,516	199,650
Structures and improvements	171,804	224,456	396,260
Utility plant	10,644,529	17,316,054	27,960,583
Machinery and equipment	1,637,040	966,493	2,603,533
Construction in progress	-	1,612,798	1,612,798
	<u>12,469,507</u>	<u>20,303,317</u>	<u>32,772,824</u>
Less: Accumulated depreciation	<u>(5,864,752)</u>	<u>(7,607,758)</u>	<u>(13,472,510)</u>
Capital assets, net	<u>6,604,755</u>	<u>12,695,559</u>	<u>19,300,314</u>
Other assets:			
Unamortized debt issuance costs	<u>199,968</u>	<u>67,119</u>	<u>267,087</u>
 Total assets	 <u>\$ 12,678,967</u>	 <u>\$ 14,217,534</u>	 <u>\$ 26,896,501</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, 2013**

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	\$ -	\$ 39,277	\$ 39,277
Accrued payroll and payroll items	-	11,273	11,273
Interfund payable	-	70,310	70,310
Other accrued liabilities	-	1,966	1,966
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>122,826</u>	<u>122,826</u>
Restricted:			
(payable from restricted assets)			
Accounts payable	323,585	7,420	331,005
Accrued payroll liabilities	36,411	25,697	62,108
Interfund payable	-	850,581	850,581
Other liabilities	38,716	4,353	43,069
Customer deposits	-	121,420	121,420
Accrued interest payable	8,154	86,604	94,758
Current portion of long-term obligations	<u>192,083</u>	<u>99,200</u>	<u>291,283</u>
Total restricted current liabilities	<u>598,949</u>	<u>1,195,275</u>	<u>1,794,224</u>
(payable from restricted assets)	<u>598,949</u>	<u>1,195,275</u>	<u>1,794,224</u>
Total current liabilities	<u>598,949</u>	<u>1,318,101</u>	<u>1,917,050</u>
Long-term liabilities, less current portion	<u>3,658,750</u>	<u>4,378,211</u>	<u>8,036,961</u>
Total liabilities	<u>4,257,699</u>	<u>5,696,312</u>	<u>9,954,011</u>
NET POSITION			
Invested in capital assets, net of related debt	2,753,922	8,218,148	10,972,070
Restricted for			
Debt retirement	1,730,271	763,586	2,493,857
Other purposes	25,269	68,869	94,138
Unrestricted	<u>3,911,806</u>	<u>(529,381)</u>	<u>3,382,425</u>
Total net position	<u>\$ 8,421,268</u>	<u>\$ 8,521,222</u>	<u>\$ 16,942,490</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, 2013**

Business-Type Activities - Enterprise Funds

	Electric Fund	Gas, Water and Sewer Fund	Total
OPERATING REVENUES			
Sales of light and power	\$ 7,148,464	\$ -	\$ 7,148,464
Sale of gas, water and sewer	-	2,280,403	2,280,403
Total operating revenues	<u>7,148,464</u>	<u>2,280,403</u>	<u>9,428,867</u>
OPERATING EXPENSES			
Cost of purchased power	4,104,693	-	4,104,693
Cost of purchased natural gas	-	524,329	524,329
Maintenance, operations and administration	1,155,703	1,118,405	2,274,108
Depreciation	255,352	514,615	769,967
Total operating expenses	<u>5,151,748</u>	<u>2,157,349</u>	<u>7,673,097</u>
Operating income	<u>1,632,716</u>	<u>123,054</u>	<u>1,755,770</u>
NON-OPERATING REVENUE (EXPENSES)			
Interest income	8,152	1,991	10,143
Interest expense	(132,711)	(179,530)	(312,241)
Fiduciary fees	(9,966)	-	(9,966)
Amortization of bond issue costs	(42,813)	(2,558)	(45,371)
Total non-operating income (expense)	<u>(177,338)</u>	<u>(180,097)</u>	<u>(357,435)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,455,378	(57,043)	1,398,335
Capital contributions	-	1,063,287	1,063,287
Transfers out	<u>(285,784)</u>	<u>(128,396)</u>	<u>(414,180)</u>
CHANGE IN NET POSITION	1,169,594	877,848	2,047,442
NET POSITION, JUNE 30, 2012	<u>7,251,674</u>	<u>7,643,374</u>	<u>14,895,048</u>
NET POSITION, JUNE 30, 2013	<u>\$ 8,421,268</u>	<u>\$ 8,521,222</u>	<u>\$ 16,942,490</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, 2013**

Business-Type Activities - Enterprise Funds

	Electric Fund	Gas, Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 7,216,004	\$ 2,236,747	\$ 9,452,751
Payments to suppliers	(5,486,268)	(1,083,018)	(6,569,286)
Payments to employees	(435,229)	(437,005)	(872,234)
Net cash provided by operating activities	<u>1,294,507</u>	<u>716,724</u>	<u>2,011,231</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	4,165,000	191,627	4,356,627
Bond issuances costs	(212,087)	-	(212,087)
Principal payments on long-term debt	(4,229,167)	(115,643)	(4,344,810)
Interest payments	(143,892)	(179,594)	(323,486)
Fiduciary fees	(9,966)	-	(9,966)
Capital purchases	(35,044)	(1,214,758)	(1,249,802)
Capital contributions	-	1,063,287	1,063,287
Net cash used in capital and related financing activities	<u>(465,156)</u>	<u>(255,081)</u>	<u>(720,237)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	7,769	2,341	10,110
Net cash provided by investing activities	<u>7,769</u>	<u>2,341</u>	<u>10,110</u>
Increase in cash and cash equivalents	551,336	335,588	886,924
Cash and cash equivalents, June 30, 2012	<u>2,939,162</u>	<u>788,663</u>	<u>3,727,825</u>
Cash and cash equivalents, June 30, 2013	<u>\$ 3,490,498</u>	<u>\$ 1,124,251</u>	<u>\$ 4,614,749</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, 2013**

Business-Type Activities - Enterprise Funds

	<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	\$ 1,632,716	\$ 123,054	\$ 1,755,770
Adjustment to reconcile operating income to net cash provided by operating activities -			
Depreciation	255,352	514,615	769,967
Changes in assets and liabilities -			
Customer accounts receivable	67,540	(43,656)	23,884
Other receivable	(24,278)	(6,300)	(30,578)
Interfund receivable	(122,945)	-	(122,945)
Supplies inventories	(253)	5,335	5,082
Accounts payable	(497,351)	15,333	(482,018)
Interfund payable	-	122,945	122,945
Accrued payroll and payroll items	(13,383)	(10,065)	(23,448)
Other accrued liabilities	(2,891)	(3,787)	(6,678)
Deposits	-	(750)	(750)
Total adjustments	<u>(338,209)</u>	<u>593,670</u>	<u>255,461</u>
Net cash provided by operating activities	<u>\$ 1,294,507</u>	<u>\$ 716,724</u>	<u>\$ 2,011,231</u>
Reconciliation of cash:			
Cash	\$ 1,726,804	\$ 83,772	\$ 1,810,576
Restricted cash	1,763,694	1,040,479	2,804,173
Total cash and cash equivalents	<u>\$ 3,490,498</u>	<u>\$ 1,124,251</u>	<u>\$ 4,614,749</u>

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

**ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

(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 is 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, 2013 the allowance for uncollectible accounts was \$100,000.

Unbilled service receivables are not accrued for at year-end.

Inventories

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

Restricted Assets

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

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

Capital Assets

Capital assets, which include land, structures, and improvements, equipment, and utility plant are reported in the financial statements. Such assets are recorded at historical cost. The cost of normal maintenance and repair that do not add to the value of the asset or materially extend assets lives 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, 2013 was \$769,967.

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. Bond issuance costs are reported as deferred bond issuance costs and are amortized over the lives of the respective bond issue.

Interest Expense

Interest expense incurred during the construction of financed projects is capitalized during the construction period. Interest expense on notes and bonds payable in subsequent years is expensed currently. Current year interest expense was \$312,241 and none was capitalized.

Encumbrances

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

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 position invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net position invested in capital assets, net of related debt 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.

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.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the Board was not required to change the reporting of current or past transactions.

The Governmental Accounting Standards Board (GASB) issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity was retitled as "net position".

The Governmental Accounting Standards Board (GASB) issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The Board has not completed the process of the evaluation of GASB No. 65; however, the Board does expect it to have an impact on its future financial statements.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the financial statements for their proportionate share of the liability. The Board will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any Board-sponsored pension plans. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. The standard is effective for fiscal year ending June 30, 2015.

(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, 2013, the carrying amount of the Board's deposits with financial institutions, including petty cash, was \$4,614,749, and the bank balance was \$4,673,819. Of the bank balance, \$750,000 was covered by federal depository insurance, \$3,399,252 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 \$524,567 was uninsured and uncollateralized.

(3) CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2013 were as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Nondepreciable assets:				
Land	\$ 199,650	\$ -	\$ -	\$ 199,650
Construction in progress	436,403	1,176,395	-	1,612,798
Total	<u>636,053</u>	<u>1,176,395</u>	<u>-</u>	<u>1,812,448</u>
Depreciable assets:				
Structures and improvements	396,260	-	-	396,260
Utility plant	27,940,815	27,106	7,338	27,960,583
Machinery and equipment	2,550,567	52,966	-	2,603,533
Total	<u>30,887,642</u>	<u>80,072</u>	<u>7,338</u>	<u>30,960,376</u>
Total capital assets	<u>31,523,695</u>	<u>1,256,467</u>	<u>7,338</u>	<u>32,772,824</u>
Less: accumulated depreciation for:				
Structures and improvements	(216,051)	(10,986)	-	(227,037)
Utility plant	(10,174,802)	(663,886)	(673)	(10,838,015)
Machinery and equipment	(2,312,363)	(95,095)	-	(2,407,458)
Total accumulated depreciation	<u>(12,703,216)</u>	<u>(769,967)</u>	<u>(673)</u>	<u>(13,472,510)</u>
Capital assets, net	<u>\$ 18,820,479</u>	<u>\$ 486,500</u>	<u>\$ 6,665</u>	<u>\$ 19,300,314</u>

Depreciation expense was charged to operations as follows:

Electric Fund	\$ 255,352
Gas, Water and Sewer fund	514,615
	<u>\$ 769,967</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, 2013:

	<u>Beginning Balance</u>	<u>Additional Proceeds</u>	<u>Reductions/ Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable: Gas, water and sewer fund	\$ 4,291,383	\$ -	\$ 94,466	\$ 4,196,917	\$ 93,638
Loans payable: Electric fund	3,915,000	4,165,000	4,229,167	3,850,833	192,083
Gas, water and sewer fund	110,044	191,627	21,177	280,494	5,562
	<u>4,025,044</u>	<u>4,356,627</u>	<u>4,250,344</u>	<u>4,131,327</u>	<u>197,645</u>
Total long-term liabilities	\$ 8,316,427	\$ 4,356,627	\$ 4,344,810	\$ 8,328,244	\$ 291,283

Bonds Payable

At June 30, 2013, bonds payable consisted of the following water and sewer revenue bonds:

<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
04/21/1992	01/01/2031	5.00%	\$ 694,000	\$ 482,000
04/21/1992	01/01/2031	5.00	84,000	56,500
07/20/1993	01/01/2033	5.00	200,000	147,000
06/03/1996	01/01/2035	4.50	400,000	306,000
12/20/1996	01/01/2033	5.00	248,300	193,417
01/21/2000	01/01/2039	3.25	469,000	393,000
02/14/2001	01/01/2040	3.25	1,008,000	829,000
09/10/2003	01/01/2043	4.25	1,515,000	1,367,000
03/09/2007	01/01/2046	4.125	250,000	234,500
03/09/2007	01/01/2046	4.125	200,000	188,500
			<u>\$ 5,068,300</u>	<u>\$ 4,196,917</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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 93,638	\$ 176,086	\$ 269,724
2015	97,590	172,101	269,691
2016	102,954	167,926	270,880
2017	106,332	163,522	269,854
2018	111,224	158,981	270,205
2019 - 2023	632,931	692,149	1,325,080
2024 - 2028	785,946	570,483	1,356,429
2029 - 2033	878,774	387,694	1,266,468
2034 - 2038	748,695	217,272	965,967
2039 - 2043	573,000	79,768	652,768
2044 - 2046	65,833	5,357	71,190
	<u>\$ 4,196,917</u>	<u>\$ 2,791,339</u>	<u>\$ 6,988,256</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 \$149,782 at June 30, 2013.

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

The Bond Ordinances further requires that the Board will not reduce the rates and charges for the services rendered by the Board without first filing with the City Clerk, a certification 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, 2013 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, 2013, the outstanding balance on the loan was \$3,850,833. 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>
2014	\$ 192,083	\$ 96,267	\$ 288,350
2015	197,083	92,425	289,508
2016	202,083	88,483	290,566
2017	207,083	84,442	291,525
2018	212,083	80,300	292,383
2019 - 2023	1,128,334	334,274	1,462,608
2024 - 2028	1,266,667	183,467	1,450,134
2029 - 2030	445,417	18,788	464,205
	<u>\$ 3,850,833</u>	<u>\$ 978,446</u>	<u>\$ 4,829,279</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, 2013, the outstanding balance of the loan was \$88,867. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 5,561	\$ 1,777	\$ 7,338
2015	11,459	3,219	14,678
2016	11,922	2,756	14,678
2017	12,403	2,274	14,677
2018	12,905	1,773	14,678
2019 - 2022	34,617	2,105	36,722
	<u>\$ 88,867</u>	<u>\$ 13,904</u>	<u>\$ 102,771</u>

Kentucky Infrastructure Authority – 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, 2013 the Board had \$191,627 (net of grant forgiveness of \$82,126) borrowed from the Kentucky Infrastructure Authority at 1%. This loan will be replaced with permanent financing at the completion of the sewer improvement project.

(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 19.55% 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, 2013, 2012, and 2011 was \$192,844, \$188,265, and \$126,485, 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	\$ 480,986	\$ 652,129	\$ 321,741	\$ 1,454,856
Other assets	60,592	6,527	-	67,119
Capital assets	<u>9,484,683</u>	<u>3,110,860</u>	<u>100,016</u>	<u>12,695,559</u>
Total assets	<u>\$ 10,026,261</u>	<u>\$ 3,769,516</u>	<u>\$ 421,757</u>	<u>\$ 14,217,534</u>
Liabilities:				
Other current liabilities	\$ 679,043	\$ 394,812	\$ 244,246	\$ 1,318,101
Noncurrent liabilities	<u>3,583,779</u>	<u>794,432</u>	<u>-</u>	<u>4,378,211</u>
Total liabilities	<u>4,262,822</u>	<u>1,189,244</u>	<u>244,246</u>	<u>5,696,312</u>
Net position:				
Invested in capital assets, net of related debt	5,826,266	2,291,866	100,016	8,218,148
Other restricted	221,272	588,577	22,606	832,453
Unrestricted	<u>(284,099)</u>	<u>(300,171)</u>	<u>54,889</u>	<u>(529,381)</u>
Total net position	<u>5,763,439</u>	<u>2,580,272</u>	<u>177,511</u>	<u>8,521,222</u>
	<u>\$ 10,026,261</u>	<u>\$ 3,769,516</u>	<u>\$ 421,757</u>	<u>\$ 14,217,534</u>

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

Operating revenues (pledged against bonds)	\$ 932,047	\$ 337,619	\$ 1,010,737	\$ 2,280,403
Depreciation expense	(368,555)	(126,957)	(19,103)	(514,615)
Other operating expenses	<u>(645,635)</u>	<u>(254,279)</u>	<u>(742,820)</u>	<u>(1,642,734)</u>
Operating gain (loss)	(82,143)	(43,617)	248,814	123,054
Non-operating revenues (expenses):				
Investment income	491	1,048	452	1,991
Interest expense	(144,649)	(34,881)	-	(179,530)
Amortization of bond issue costs	(2,211)	(347)	-	(2,558)
Capital contributions	8,850	1,053,337	1,100	1,063,287
Transfers out	<u>(62,127)</u>	<u>(16,567)</u>	<u>(49,702)</u>	<u>(128,396)</u>
Change in net position	(281,789)	958,973	200,664	877,848
Transfer capital assets	2,045,815	(2,045,815)	-	-
Beginning net position	<u>3,999,413</u>	<u>3,667,114</u>	<u>(23,153)</u>	<u>7,643,374</u>
Ending net position	<u>\$ 5,763,439</u>	<u>\$ 2,580,272</u>	<u>\$ 177,511</u>	<u>\$ 8,521,222</u>

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

Operating activities	\$ 335,149	\$ 331,268	\$ 50,307	\$ 716,724
Noncapital financing activities	(62,127)	(16,567)	(49,702)	(128,396)
Capital and related financing activities	(256,748)	567	1,100	(255,081)
Investing activities	<u>652</u>	<u>1,207</u>	<u>482</u>	<u>2,341</u>
Net increase	16,926	316,475	2,187	335,588
Beginning cash	<u>277,487</u>	<u>285,565</u>	<u>225,611</u>	<u>788,663</u>
Ending cash	<u>\$ 294,413</u>	<u>\$ 602,040</u>	<u>\$ 227,798</u>	<u>\$ 1,124,251</u>

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, 2013**

<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 Housing and Urban Development:</u>			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	11D-038	\$ <u>897,116</u> *
Total Department of Housing and Urban Development			<u>897,116</u>
<u>Environmental Protection Agency:</u>			
Capitalization Grants for Clean Water State Revolving Funds, Recovery Act	66.458	A11-06	<u>273,753</u>
Total Environmental Protection Agency			<u>273,753</u>
<u>Appalachian Regional Commission:</u>			
Appalachian Area Development	23.002	16759	<u>68,511</u>
Total Appalachian Regional Commission			<u>68,511</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ <u>1,239,380</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, 2013. 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.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2013, 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, 2013.

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, Dalloway & Company, PSC

October 31, 2013



Kelley,
Galloway &
Company, PSC

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**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, 2013. 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, 2013.

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, 2013.

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.

Purpose of this Report

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, Galloway & Company, PSC

October 31, 2013

**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, 2013**

(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, 2013:

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (14.228)

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, 2013**

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, 2013**

No corrective action plan needed in the current year.