

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

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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Kelley,
Galloway &
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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Electric Plant Board of the City of Vanceburg, Kentucky, a component unit of the City of Vanceburg, Kentucky, (the "Board") as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Electric Plant Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Plant Board of the City of Vanceburg, Kentucky as of June 30, 2010, and the respective changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010 on our consideration of Electric Plant Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Kelley, Galloway & Company, PSC
December 3, 2010

**ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2010**

	Electric Fund	Gas, Water and Sewer Fund	Total
ASSETS			
Current assets-			
Unrestricted:			
Cash	\$ 3,235,319	\$ 2,900	\$ 3,238,219
Customer accounts receivable, net	603,902	183,935	787,837
Interfund receivable	11,443	-	11,443
Other receivable	25,000	-	25,000
Accrued interest receivable	4,887	1,173	6,060
Supplies inventories	225,386	65,363	290,749
Total unrestricted current assets	<u>4,105,937</u>	<u>253,371</u>	<u>4,359,308</u>
Restricted:			
Cash	24,304	322,908	347,212
Total restricted current assets	<u>24,304</u>	<u>322,908</u>	<u>347,212</u>
Total current assets	<u>4,130,241</u>	<u>576,279</u>	<u>4,706,520</u>
Capital assets:			
Land	16,134	30,516	46,650
Structures and improvements	171,804	224,456	396,260
Utility plant	10,514,474	17,249,005	27,763,479
Machinery and equipment	1,444,879	907,150	2,352,029
	12,147,291	18,411,127	30,558,418
Less: Accumulated depreciation	(5,065,121)	(6,050,668)	(11,115,789)
Capital assets, net	<u>7,082,170</u>	<u>12,360,459</u>	<u>19,442,629</u>
Other assets:			
Unamortized debt issuance costs	34,782	75,022	109,804
Total assets	<u>\$ 11,247,193</u>	<u>\$ 13,011,760</u>	<u>\$ 24,258,953</u>

**ELECTRIC PLANT BOARD
OF THE CITY OF VANCEBURG
(A COMPONENT UNIT OF THE CITY OF VANCEBURG, KENTUCKY)
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS (CONCLUDED)
JUNE 30, 2010**

	Electric Fund	Gas, Water and Sewer Fund	Total
LIABILITIES			
Current liabilities-			
Unrestricted:			
(payable from current assets)			
Accounts payable	\$ 620,873	\$ 39,155	\$ 660,028
Accounts payable to the City of Vanceburg	83,000	15,000	98,000
Accrued payroll and payroll items	29,428	13,973	43,401
Interfund payable	-	3,814	3,814
Other accrued liabilities	36,612	202,738	239,350
Accrued interest payable	20,360	-	20,360
Current portion of long-term obligations	145,400	3,200	148,600
Total unrestricted current liabilities	<u>935,673</u>	<u>277,880</u>	<u>1,213,553</u>
(payable from current assets)			
Restricted:			
(payable from restricted assets)			
Accounts payable	-	13,207	13,207
Accounts payable to the City of Vanceburg	-	22,725	22,725
Accrued payroll liabilities	-	17,934	17,934
Interfund payable	-	7,629	7,629
Other liabilities	-	2,133	2,133
Customer deposits	-	111,695	111,695
Accrued interest payable	-	5,232	5,232
Current portion of long-term obligations	-	91,213	91,213
Total restricted current liabilities	<u>-</u>	<u>271,768</u>	<u>271,768</u>
(payable from restricted assets)			
Total current liabilities	<u>935,673</u>	<u>549,648</u>	<u>1,485,321</u>
Long-term liabilities, less current portion	<u>4,068,707</u>	<u>4,383,531</u>	<u>8,452,238</u>
Total liabilities	<u>5,004,380</u>	<u>4,933,179</u>	<u>9,937,559</u>
NET ASSETS:			
Invested in capital assets, net of related debt	2,868,063	7,882,515	10,750,578
Restricted for			
Debt retirement	-	167,259	167,259
Other purposes	24,304	4,947	29,251
Unrestricted	<u>3,350,446</u>	<u>23,860</u>	<u>3,374,306</u>
Total net assets	<u>6,242,813</u>	<u>8,078,581</u>	<u>14,321,394</u>
Total liabilities and net assets	<u>\$ 11,247,193</u>	<u>\$ 13,011,760</u>	<u>\$ 24,258,953</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 ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

Business-Type Activities - Enterprise Funds

	Electric Fund	Gas, Water and Sewer Fund	Total
OPERATING REVENUES			
Sales of light and power	\$ 6,816,140	\$ -	\$ 6,816,140
Sale of gas, water and sewer	-	1,996,880	1,996,880
Total operating revenues	<u>6,816,140</u>	<u>1,996,880</u>	<u>8,813,020</u>
OPERATING EXPENSES			
Cost of purchased power	4,333,095	-	4,333,095
Cost of purchased natural gas	-	738,706	738,706
Maintenance, operations and administration	942,087	1,142,406	2,084,493
Depreciation	260,386	516,185	776,571
Total operating expenses	<u>5,535,568</u>	<u>2,397,297</u>	<u>7,932,865</u>
Operating income (loss)	<u>1,280,572</u>	<u>(400,417)</u>	<u>880,155</u>
NON-OPERATING REVENUE (EXPENSES)			
Interest income	34,849	5,781	40,630
Interest expense	(252,300)	(193,418)	(445,718)
Fiduciary fees	(6,955)	-	(6,955)
Amortization of bond issue costs	(2,169)	(2,944)	(5,113)
Grant income	24,295	-	24,295
Total non-operating income (expense)	<u>(202,280)</u>	<u>(190,581)</u>	<u>(392,861)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,078,292	(590,998)	487,294
Capital contributions	-	77,370	77,370
Transfers out	(199,200)	(90,540)	(289,740)
CHANGE IN NET ASSETS	879,092	(604,168)	274,924
NET ASSET, JUNE 30, 2009	<u>5,363,721</u>	<u>8,682,749</u>	<u>14,046,470</u>
NET ASSETS, JUNE 30, 2010	<u>\$ 6,242,813</u>	<u>\$ 8,078,581</u>	<u>\$ 14,321,394</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, 2010**

	<u>Business-Type Activities - Enterprise Funds</u>		
	Electric Fund	Gas, Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 6,829,527	\$ 1,962,642	\$ 8,792,169
Payments to suppliers	(4,976,973)	(1,501,303)	(6,478,276)
Payments to employees	(373,505)	(407,697)	(781,202)
Net cash provided by operating activities	<u>1,479,049</u>	<u>53,642</u>	<u>1,532,691</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers out	<u>(116,200)</u>	<u>(52,815)</u>	<u>(169,015)</u>
Net cash used in non-capital financial activities	<u>(116,200)</u>	<u>(52,815)</u>	<u>(169,015)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on long-term debt	(140,400)	(222,317)	(362,717)
Interest payments	(252,840)	(193,633)	(446,473)
Fiduciary fees	(6,955)	-	(6,955)
Capital purchases	(33,665)	(116,588)	(150,253)
Capital contributions	-	77,370	77,370
Grant income	<u>24,295</u>	<u>-</u>	<u>24,295</u>
Net cash used in capital and related financing activities	<u>(409,565)</u>	<u>(455,168)</u>	<u>(864,733)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	<u>49,377</u>	<u>6,476</u>	<u>55,853</u>
Net cash provided by investing activities	<u>49,377</u>	<u>6,476</u>	<u>55,853</u>
Increase (decrease) in cash and cash equivalents	1,002,661	(447,865)	554,796
Cash and cash equivalents, June 30, 2009	<u>2,256,962</u>	<u>773,673</u>	<u>3,030,635</u>
Cash and cash equivalents, June 30, 2010	<u>\$ 3,259,623</u>	<u>\$ 325,808</u>	<u>\$ 3,585,431</u>

**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, 2010 (CONCLUDED)**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Electric Fund</u>	<u>Gas, Water and Sewer Fund</u>	<u>Total</u>
Reconciliations of operating income to net cash provided by operating activities -			
Operating income (loss)	\$ 1,280,572	\$ (400,417)	\$ 880,155
Adjustment to reconcile operating income (loss) to net cash provided by operating activities -			
Depreciation	260,386	516,185	776,571
Changes in assets and liabilities -			
Customer accounts receivable	13,353	(34,238)	(20,885)
Interfund receivable	34	-	34
Supplies inventories	7,599	(24,994)	(17,395)
Accounts payable	(74,394)	9,589	(64,805)
Interfund payable	-	(34)	(34)
Accrued payroll and payroll items	(2,905)	2,203	(702)
Other accrued liabilities	(5,596)	(24,147)	(29,743)
Deposits	-	9,495	9,495
Total adjustments	<u>198,477</u>	<u>454,059</u>	<u>652,536</u>
Net cash provided by operating activities	<u>\$ 1,479,049</u>	<u>\$ 53,642</u>	<u>\$ 1,532,691</u>
Reconciliation of cash:			
Cash	\$ 3,235,319	\$ 2,900	\$ 3,238,219
Restricted cash	<u>24,304</u>	<u>322,908</u>	<u>347,212</u>
Total cash and cash equivalents	<u>\$ 3,259,623</u>	<u>\$ 325,808</u>	<u>\$ 3,585,431</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, 2010**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Electric Plant Board of the City of Vanceburg, Kentucky (the "Board"), a component unit of the City of Vanceburg, Kentucky is presented to assist in understanding the Board's financial statements. The financial statements and notes are representations of the Board's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Reporting Entity

The Board was created pursuant to an ordinance adopted by the City Council of the City of Vanceburg, Kentucky ("City") on July 11, 1939. The Board was reorganized by additional ordinances dated February 4, 1964 and July 1, 1995, and provides electric, water, gas and sewer services to the Citizens of Vanceburg, Kentucky and surrounding areas. The Board is a component unit of the City, and as such, the City is the primary government in whose financial reporting entity the Board is included.

Basic Financial Statements

Basic financial statements consist of the following:

- Fund financial statements and
- Notes to the basic financial statements.

Measurement Focus Basis of Accounting and Financial Statement Presentation

The account classification structures used by the Board conform to accounting principles generally accepted in the United States of American consistent with governmental enterprise fund accounting. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The accounts of the Board are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The Board reports the following major proprietary funds:

The Electric Fund accounts for the activities of providing electric service to the citizens of the City and surrounding areas.

The Gas, Water and Sewer Fund accounts for the activities of providing gas, water and sewer service to the citizens of the City and surrounding areas.

Proprietary funds have elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, for proprietary funds. The proprietary funds apply all applicable GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those

pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Assets

Cash and Investments

In accordance with state requirements, the Board has adopted an investment policy that, among other things, authorizes types and concentrations of investments and maximum investment terms. Authorized investments include:

- Securities of the U.S. government or its agencies
- Certificates of deposits (or time deposits) placed with commercial banks and/or savings and loan associations
- Shares of money market funds.

Investments in certificates of deposits are stated at cost, which approximates market value. For purposes of the statement of cash flows, the Board has defined cash and cash equivalents to be change and petty cash funds, checking accounts, time deposits, and certificates of deposits.

Receivable and Payables

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

The Board's employees read meters to measure customer consumption of electric, gas, sewer and water in the middle of the month. Estimates for unbilled receivables were based on consumption for the meter reading period immediately following the year end. This usage was prorated for the number of days within the fiscal year and multiplied by the appropriate rates. The allowance for doubtful accounts is estimated using accounts receivable past due more than 60 days.

All customer receivables are shown net of an allowance for uncollectible accounts and estimated refunds due. As of June 30, 2010 the allowance for uncollectible accounts was \$78,004.

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

Inventories

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

Restricted Assets

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

In the absence of specific statutory provisions governing the issuance of bonds, these bond monies may be invested in accordance with the ordinance, resolutions, or indentures specifying

the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the Board's general investment policy. In no instance have additional types of investments been authorized that are not permitted by the Board's general investment policy.

Capital Assets

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

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

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

<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, 2010 was \$776,571.

Long-Term Liabilities

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

Interest Expense

Interest expense incurred during the construction of financed projects is capitalized during the construction period. Interest expense on notes and bonds payable in subsequent years is expensed currently. Current year interest expense was \$445,718 and none was capitalized.

Encumbrances

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

Net Assets and Fund Equity

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

Use of Estimates

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

(2) DEPOSITS WITH 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, 2010, the carrying amount of the Board's deposits with financial institutions was \$3,379,794 (including overdrafts of \$202,737 that were reclassified to accounts payable), and the bank balance was \$3,405,976. Of the bank balance, \$501,371, was covered by federal depository insurance, with the remainder being uninsured, but collateralized by securities held by the pledging financial institution's trust department or agent, in the Board's name.

(3) CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2010 were as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Nondepreciable assets:				
Land	\$ 46,650	\$ -	\$ -	\$ 46,650
Construction in progress	66,868	-	66,868	-
Total	113,518	-	66,868	46,650
Depreciable assets:				
Structures and improvements	307,419	88,841	-	396,260
Utility plant	27,720,383	43,096	-	27,763,479
Machinery and equipment	2,266,845	85,184	-	2,352,029
Total	30,294,647	217,121	-	30,511,768
Total Capital Assets	30,408,165	217,121	66,868	30,558,418
Less: accumulated depreciation for:				
Structures and improvements	(183,138)	(10,071)	-	(193,209)
Utility plant	(8,191,036)	(659,977)	-	(8,851,013)
Machinery and equipment	(1,965,044)	(106,523)	-	(2,071,567)
Total accumulated depreciation	(10,339,218)	(776,571)	-	(11,115,789)
Capital assets, net	\$ 20,068,947	\$ (559,450)	\$ 66,868	\$ 19,442,629

Depreciation expense was charged to operations as follows:

Electric Fund	\$ 260,386
Gas, Water and Sewer fund	516,185
	<u>\$ 776,571</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 Assets - Proprietary Funds as transfers from these funds to the City as follows:

Electric fund	\$ 199,200
Gas, water and sewer fund	90,540
	<u>\$ 289,740</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, 2010:

	Beginning Balance	Additional Proceeds	Reductions/ Payments	Ending Balance	Due Within One Year
Bonds payable: Gas, water and sewer fund	\$ 4,539,768	\$ -	\$ 82,717	\$ 4,457,051	\$ 84,813
Loans payable: Electric fund	4,354,507	-	140,400	4,214,107	145,400
Gas, water and sewer fund	160,493	-	139,600	20,893	9,600
	<u>4,515,000</u>	<u>-</u>	<u>280,000</u>	<u>4,235,000</u>	<u>155,000</u>
Total long-term liabilities	<u>\$ 9,054,768</u>	<u>\$ -</u>	<u>\$ 362,717</u>	<u>\$ 8,692,051</u>	<u>\$ 239,813</u>

Bonds Payable

At June 30, 2010, bonds payable consisted of the following water and sewer revenue bonds:

Date Issued	Final Maturity	Interest Rate	Authorized and Issued	Outstanding
04/21/1992	01/01/2031	5.00%	\$ 694,000	\$ 528,000
04/21/1992	01/01/2031	5.00	84,000	62,500
07/20/1993	01/01/2033	5.00	200,000	159,500
06/03/1996	01/01/2035	4.50	400,000	329,000
12/20/1996	01/01/2010	5.00	45,700	2,103
12/20/1996	01/01/2033	5.00	248,300	207,748
01/21/2000	01/01/2039	3.25	469,000	416,000
02/14/2001	01/01/2040	3.25	1,008,000	884,000
09/10/2003	01/01/2043	4.25	1,515,000	1,428,500
03/09/2007	01/01/2046	4.125	250,000	244,000
03/09/2007	01/01/2046	4.125	200,000	195,700
			<u>\$ 5,114,000</u>	<u>\$ 4,457,051</u>

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

Fiscal Year	Principal	Interest	Total
2011	\$ 84,813	\$ 187,164	\$ 271,977
2012	84,969	183,543	268,512
2013	89,798	219,918	309,716
2014	93,638	176,086	269,724

2015	97,590	172,101	269,691
2016 - 2020	557,392	793,886	1,351,278
2021 - 2025	689,672	663,575	1,353,247
2026 - 2030	857,494	501,265	1,358,759
2031 - 2035	837,998	314,630	1,152,628
2036 - 2040	710,500	157,706	868,206
2041 - 2045	330,487	37,600	368,087
2046	22,700	936	23,636
	<u>\$ 4,457,051</u>	<u>\$ 3,408,410</u>	<u>\$ 7,865,461</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 \$116,384 at June 30, 2010.

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

The Bond Ordinances further requires that the Board will not reduce the rates and charges for the services rendered by the Board without first filing with the City Clerk, a certification of an independent Consulting Engineer to the effect that the annual net revenues (defined as gross revenues less current expenses) of the then existing Board for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues of the Board anticipated to result from any such proposed rate decrease, are equal to not less than 120% of the annual debt service requirements for principal and interest on all of the then Outstanding Bonds payable from the revenues of the Board.

Loans Payable

At June 30, 2010 loans payable were as follows:

Kentucky Area Development Districts Financing Trust - In October 2000, a variable rate financing lease payable was obtained to finance certain electric utility improvements and is secured by such improvements. The loan was in the amount of \$5,000,000 and for a term of 30 years. The interest rate on the loan varies from 4.75% to 6.00%. At June 30, 2010, the outstanding balance on the loan was \$4,150,000. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 115,000	\$ 245,185	\$ 360,185
2012	120,000	238,745	358,745
2013	125,000	232,025	357,025
2014	135,000	225,025	360,025
2015	140,000	217,465	357,465
2016 - 2020	850,000	954,525	1,804,525
2021 - 2025	1,145,000	670,200	1,815,200
2026 - 2030	1,520,000	284,700	1,804,700
	<u>\$ 4,150,000</u>	<u>\$ 3,067,870</u>	<u>\$ 7,217,870</u>

Kentucky Area Districts Financing Trust - In November 2006, a variable rate financing lease payable was obtained to finance certain electric, gas, water and sewer equipment and improvements, and is secured by such equipment and improvements. The loan was in the amount of \$205,000 and for a term of 5 years. The interest rate on the loan varies from 4.00% to 4.40%. At June 30, 2010 the outstanding balance on the loan was \$85,000. Debt service

requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 40,000	\$ 2,840	\$ 42,840
2012	45,000	990	45,990
	<u>\$ 85,000</u>	<u>\$ 3,830</u>	<u>\$ 88,830</u>

(6) PENSION PLAN

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

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

Funding for CERS is provided by members who contribute 5.0% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 16.16% 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, 2010 and 2009 was \$118,086 and \$96,048, respectively, which were equal to the required contributions.

(7) COMMITMENTS AND CONTINGENCIES

On January 1, 1979, the Board elected to become a self-insurer for the purpose of Kentucky unemployment insurance taxes. The Board has pledged to the Commonwealth of Kentucky real property that exceeds double the amount of deposit otherwise required as security to insure that any unemployment benefits due would be paid.

Effective January 1, 2006, the Board contracted with American Electric Power to provide all purchased power through May 31, 2025.

Effective April 1, 2008, the Board contracted with Atoms Energy to provide all purchased natural gas through March 31, 2025.

Litigation was instituted by the Kentucky Environmental Protection Cabinet against the Electric Plant Board, (and against many municipalities in Kentucky along with 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 and Sewer Department
CONDENSED STATEMENT OF NET ASSETS	
Assets:	
Current assets	\$ 153,402
Other assets	316,011
Capital assets	12,187,715
Total assets	<u>12,657,128</u>
Liabilities:	
Other current liabilities	156,603
Noncurrent liabilities	4,379,767
Total liabilities	<u>4,536,370</u>
Net assets:	
Invested in capital assets, net of related debt	7,716,735
Other restricted	172,206
Unrestricted	231,817
Total net assets	<u>\$ 8,120,758</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS	
Operating revenues (pledged against bonds)	\$ 840,058
Depreciation expense	(488,882)
Other operating expenses	(740,971)
Operating loss	<u>(389,795)</u>
Non-operating revenues (expenses):	
Investment income	3,855
Interest expense	(193,203)
Amortization of bond issue costs	(2,893)
Capital contributions	77,370
Transfers out	(54,540)
Change in net assets	<u>(559,206)</u>
Beginning net assets	8,679,964
Ending net assets	<u>\$ 8,120,758</u>
CONDENSED STATEMENT OF CASH FLOWS	
NET CASH PROVIDED BY (USED BY):	
Operating activities	\$ 78,225
Noncapital financing activities	(31,815)
Capital and related financing activities	(447,594)
Investing activities	4,334
Net decrease	<u>(396,850)</u>
Beginning cash	637,916
Ending cash	<u>\$ 241,066</u>

(10) FUTURE GASB PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has recently issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* which the Board will be required to implement in the fiscal year beginning July 1, 2010. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, as well as clarifying the definitions of the various governmental fund types.

The Board does not anticipate that the adoption of GASB No. 54 will have material impact on its future financial statements.



Kelley,
Galloway &
Company, PSC

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Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North American Network

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

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

We have audited the financial statements of the Electric Plant Board of the City of Vanceburg, (the "Board") as of and for the year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. 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*, and issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Board in a separate letter dated December 3, 2010.

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

Kelley, Dalloway & Company, PSC
December 3, 2010



Kelley,
Galloway &
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Board Members
Electric Plant Board of the
City of Vanceburg
Vanceburg, Kentucky

We have audited the financial statements of Electric Plant Board of the City of Vanceburg for the year ended June 30, 2010 and have issued our report thereon dated December 3, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 14, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Electric Plant Board of the City of Vanceburg. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Electric Plant Board of the City of Vanceburg's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 25, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Board are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Board during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of depreciation is based on historical trends and industry standards. We evaluated the key factors and assumptions used to develop the estimate of depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements (passed adjustments) to the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 3, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Board's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Kelley Galloway & Company, PSC

December 3, 2010

ELECTRIC PLANT BOARD OF THE CITY OF VANCEBURG
SUMMARY OF PASSED ADJUSTMENTS
JUNE 30, 2010

Description	Account No.	<-----Effect of Passed Adjustments----->					
		Dr.	Cr.	Assets	Liabilities	Equity	Income
(1)							
Vouchers payable	201-000-00-023-300-02	5,524.81			(5,524.81)		
Water supplies and expenses	201-200-40-401-602-00		1,436.46				1,436.46
Sewer supplies and expenses	201-300-60-401-705-02		552.48				552.48
Gas supplies and expenses	201-400-80-401-760-10		3,535.87				3,535.87
Expense for sales tax	101-100-10-000-241-06	6,525.52					(6,525.52)
Vouchers payable	101-000-00-023-300-01		6,525.52		6,525.52		
To adjust accounts payable accounts that had not been adjusted from prior year.							
(2)							
Misc cash receipts - water	201-200-40-400-471-03	9,950.00					(9,950.00)
SE cont in aid of construction	201-300-60-000-271-00		9,950.00				9,950.00
To reclass tap fees collected out of miscellaneous receipts and record them as contributed capital.							
Net Effect of Passed Adjustments				0.00	1,000.71	(1,000.71)	
Financial Statement Amounts				24,258,953	9,937,559	14,321,394	274,924
Percentage Misstatement				0.00%	0.01%	-0.01%	-0.36%