

CITY OF CORBIN
Corbin, Kentucky

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013
with
INDEPENDENT AUDITOR'S REPORT

CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities.....	9
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	10
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Postion.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	13
Statement of Fiduciary Net Assets – Fiduciary Funds.....	14
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	15
Notes to Basic Financial Statements	16
Supplementary Information	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	33
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Arena Fund	34
Pension Trust Fund – Schedule	35

Notes to Required Supplementary Information.....	36
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37
Transmittal Letter to Comment and Recommendations	39
Comments and Recommendations.....	40

INDEPENDENT AUDITOR'S REPORT

Mayor and Commissioners
City of Corbin
Corbin, Kentucky

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, as applicable, of the City of Corbin, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government 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. 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.

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units and Qualified Opinion on Aggregate Remaining Fund Information

The financial statements referred to above do not include financial data for the City's legally separate discretely presented component units. Accounting principles generally accepted in the United States of America require financial data for the City's legally separate component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data of its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, change in net position of the aggregate discretely presented component units would have been reported as approximately \$54 million, \$4.3 million and \$134,000 however, the actual amounts cannot be determined due to audits not performed on some component units at June 30, 2013. Assets and net position are primarily made up of capital assets in the Utility Commission. There is no aggregate remaining fund information in any of the aggregate discretely presented component units. The financial statements do include City Hall Public Corporation, a legally separate blended component unit.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units and Qualified Opinion on Aggregate Remaining Fund Information" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City of Corbin, Kentucky as of June 30, 2013, or the changes in financial position or cash flows, as applicable, thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, if applicable for the primary government of the City of Corbin, Kentucky, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information per the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management:

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The management's discussion and analysis and the budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 16, 2013, on our consideration of City of Corbin, Kentucky'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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Corbin, Kentucky's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

December 16, 2013
Corbin, KY

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) Year ended June 30, 2013

As management of the City of Corbin (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS

- The City's ending cash balance was \$1,608,485 comprised of \$112,259 in restricted cash and \$1,495,726 in unrestricted cash. The prior year's cash balance was \$2,322,195 comprised of \$38,078 in restricted cash and \$2,284,117 in unrestricted cash.
- The City's combined net position decreased by \$773,702 or approximately 2.25% between 2012 and 2013.
- The General Fund had approximately \$7.8 million in revenue (excluding debt issues, transfers), which primarily consisted of tax revenue, fees for services, regulatory fees, and intergovernmental revenue. There was an overall decrease, excluding debt service in the General Fund net asset balance of approximately \$82,500 which represents approximately a 2.2% decrease relative to the prior year. The Corbin Arena Fund showed an overall decrease of \$441,767. The total overall decrease for governmental funds was \$524,332 or approximately 20% between 2012 and 2013.
- The City's total long-term debt decreased by \$607,599, relative to 2012. The City issued two leases for equipment in the total amount of \$177,169 during the year, and ending the ending debt balance was \$11,582,907 including the net pension obligation and accrued absences.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2013

The government-wide financial statements outline functions of the City that are primarily supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police department, fire protection, public works, recycling, building inspection, parks and recreation, main street and special projects. Fixed asset acquisitions and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to provide benefits for employees. The City has no proprietary funds. All other activities of the City are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 32 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental assets exceeded liabilities by approximately \$33 million. The largest portion of the City's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2013

The City as a Whole

The following is a summary of the City's net assets:

	Governmental Activities		Total	
	2012	2013	2012	2013
Current and other assets	\$ 3,841,952	\$ 3,328,513	\$ 3,841,952	\$ 3,328,513
Capital assets, net of depreciation	42,341,076	41,324,819	42,341,076	41,324,819
Total Assets	46,183,028	44,653,332	46,183,028	44,653,332
Short-term liabilities	1,636,780	1,412,285	1,636,780	1,412,285
Other liabilities	11,480,989	10,949,391	11,480,989	10,949,391
Total Liabilities	13,117,769	12,361,676	13,117,769	12,361,676
Net assets				
Net investment in capital assets	31,729,237	31,344,303	31,729,237	31,344,303
Restricted	38,078	107,436	38,078	107,436
Unrestricted	1,297,944	839,918	1,297,944	839,918
Total Net Position	\$ 33,065,259	\$ 32,291,657	\$ 33,065,259	\$ 32,291,657

The following is a summary of the City's changes in net assets:

	Governmental Activities		Total	
	2012	2013	2012	2013
Revenues				
Program revenues				
Charges for services	\$ 1,997,534	\$ 1,994,155	\$ 1,997,534	\$ 1,994,155
Operating Grants & contributions	1,180,338	1,291,170	1,180,338	1,291,170
Capital Grants & contributions	136,657	24,618	136,657	24,618
General revenues				
Local taxes	4,390,145	4,376,026	4,390,145	4,376,026
Regulatory fees	-	774,873	-	774,873
Licenses and permits	414,785	279,328	414,785	279,328
Rent	198,591	190,327	198,591	190,327
Earnings on investments	13,254	376	13,254	376
Other	144,033	91,789	144,033	91,789
Total revenues	\$ 8,475,337	\$ 9,022,662	\$ 8,475,337	\$ 9,022,662
Expenses				
General government	1,205,253	1,231,967	1,205,253	1,231,967
Police department	1,895,965	2,312,762	1,895,965	2,312,762
Fire department	1,227,414	1,364,328	1,227,414	1,364,328
Public works	1,740,043	1,894,405	1,740,043	1,894,405
Recycling center	384,591	321,716	384,591	321,716
Building inspector	116,939	118,485	116,939	118,485
Parks and recreation	586,774	482,034	586,774	482,034
Special projects	157,519	100,040	157,519	100,040
Arena	1,607,296	1,462,718	1,607,296	1,462,718
Main street	-	101,495	-	101,495
Interest on debt service	93,489	406,314	93,489	406,314
Total expenses	\$ 9,015,283	\$ 9,796,264	\$ 9,015,283	\$ 9,796,264
Increase/(Decrease) in net position	\$ (539,946)	\$ (773,602)	\$ (539,946)	\$ (773,602)

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) Year ended June 30, 2013

There has been some deterioration in the overall financial position of the City since the prior year.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for fiscal years 2013 and 2012:

	<u>2012</u>	<u>2013</u>
Revenues and other financing sources		
Tax and related revenue	\$ 4,390,145	\$ 5,150,899
Licenses and permits	414,786	279,328
Fees for services	1,997,534	1,988,805
Rent	198,591	190,327
Investments	13,254	5,725
Intergovernmental	1,316,994	1,315,788
Other	163,295	91,789
Debt issue	-	177,169
	<u>8,494,599</u>	<u>9,199,830</u>
Total Revenue and other financing sources		
	<u>8,494,599</u>	<u>9,199,830</u>
Expenditures and other financing uses		
General government	723,474	900,531
Police department	1,895,965	2,287,602
Fire department	1,227,414	1,421,220
Public works	1,740,043	2,061,745
Recycling center	384,592	313,141
Building inspection	116,939	117,744
Parks and recreation	586,774	533,061
Special projects	157,519	100,040
Main street	-	120,841
Arena	859,664	752,753
Debt service	841,638	938,315
	<u>8,534,022</u>	<u>9,546,993</u>
Total expenditures and other financing uses		
	<u>8,534,022</u>	<u>9,546,993</u>
Net change in fund balance	<u>\$ (39,423)</u>	<u>\$ (347,163)</u>

General Fund Revenue

The majority of revenue, net of debt, was derived from tax revenue (51% in 2013 and 48% in 2012). Fees for services made up 21% of revenue in 2013 and 22% in 2011. Interest income made up 0.07% of total revenues in 2013 and 0.17% in 2012. .

BUDGETARY IMPLICATION

The City's fiscal year is July1-June 30; other programs, i.e., some federal programs operate on a different fiscal calendar, but are reflected in the City's overall budget. Significant events that may impact the finances include expected state budget deficits that may impact grant or other revenue. The City routinely attempts to keep expenditures to a minimum because of the anticipated revenue problems. The City's budget was not exceeded in the current year.

Questions regarding this report should be directed to the Corbin City Clerk, Corbin, Kentucky, 40701.

CITY OF CORBIN, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2013

	Primary Government	
	Governmental	
	Activities	Total
ASSETS		
Cash and cash equivalents - unrestricted	\$ 1,495,726	\$ 1,495,726
Restricted cash and cash equivalents	112,759	112,759
Taxes receivable:		
Restaurant tax	263,053	263,053
Insurance tax	331,287	331,287
Occupational tax	299,577	299,577
Regulatory fees receivable	69,297	69,297
Other receivables (net of allowance for uncollectible accounts)	264,930	264,930
Prepaid expense	1,182	1,182
Due from component units	197,290	197,290
Debt issuance costs	293,413	293,413
Investment in fixed assets, net		
Non-depreciable	2,593,027	2,593,027
Depreciable	38,731,792	38,731,792
Total assets	44,653,333	44,653,333
LIABILITIES		
Accounts payable	172,641	172,641
Accrued expenses	181,263	181,263
Due to component units	263,053	263,053
Short term loan payable	113,642	113,642
Accrued interest	24,060	24,060
Advance ticket sales	24,109	24,109
Accrued compensated absences - current	19,700	19,700
Current portion of capital leases due	39,580	39,580
Current portion of long-term notes payable	2,683	2,683
Current portion purchase agreements payable	571,554	571,554
Pension liability payable	1,082,717	1,082,717
Long-term portion of capital leases	115,602	115,602
Long-term portion of notes payable	894	894
Long-term portion of lease purchase agreements payable	9,659,218	9,659,218
Non-current portion of accrued compensated absences	90,960	90,960
Total liabilities	12,361,676	12,361,676
NET ASSETS		
Net investment in capital assets	31,344,303	31,344,303
Restricted for:		
Operations	71,305	71,305
Capital expenditures	36,131	36,131
Unrestricted	839,918	839,918
Total net position	\$ 32,291,657	\$ 32,291,657

The accompanying notes are an integral part of these financial statements.

CITY OF CORBIN, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Corbin Arena Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents - unrestricted	\$ 1,233,113	\$ 262,613	\$ 1,495,726
Restricted cash and cash equivalents	88,651	24,108	112,759
Taxes receivable			
Restaurant tax	263,053		263,053
Insurance tax	331,287	-	331,287
Occupational tax	299,577	-	299,577
Regulatory fees receivable	69,297	-	69,297
Other receivables (net of allowance for uncollectible accounts)	250,553	14,377	264,930
Prepaid expenses	1,182	-	1,182
Due from Arena Fund	1,912,886	-	1,912,886
Due from component units	-	197,290	197,290
Total assets	\$ 4,449,599	\$ 498,388	\$ 4,947,987
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 142,929	\$ 29,712	\$ 172,641
Accrued expenses	113,784	67,481	181,265
Advance ticket sales	-	24,108	24,108
Short-term obligations payable	113,642	-	113,642
Current portion of accrued compensated absences	19,700	-	19,700
Due to General Fund	-	1,912,886	1,912,886
Due to Tourism	263,053	-	263,053
Total liabilities	653,108	2,034,187	2,687,295
Fund balances			
Nonspendable	1,182	-	1,182
Restricted	70,123	-	70,123
Committed	36,131	-	36,131
Assigned	-	-	-
Unassigned	3,689,055	(1,535,799)	2,153,256
Total fund balances	3,796,491	(1,535,799)	2,260,692
Total liabilities and fund balances	\$ 4,449,599	\$ 498,388	\$ 4,947,987

The accompanying notes are an integral part of these financial statements.

CITY OF CORBIN, KENTUCKY

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS

June 30, 2013

Total fund balances - governmental funds	\$ 2,260,692
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets exceeds accumulated depreciation by \$41,324,819	41,324,819
Bond issue costs are not current financial resources and, therefore, are not reported as assets in governmental funds.	293,413
Bonds payable, notes payable and leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net assets.	(10,389,530)
The net pension obligation is not expected to be paid from current economic resources and is not reported in the governmental funds balance sheet but is presented in the statement of net assets.	(1,082,717)
Long-term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	(90,960)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	<u>(24,060)</u>
Total net assets - governmental activities	<u>\$ 32,291,657</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CORBIN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2013

	General Fund	Corbin Arena Fund	Total Governmental Funds
Revenues			
Taxes:			
Property	\$ 971,022	\$ -	\$ 971,022
Motor vehicle	98,446	-	98,446
Occupational	1,471,768	-	1,471,768
Municipal insurance	1,443,882	-	1,443,882
Other	85,987	-	85,987
Alcohol regulatory fees and licenses	774,873	-	774,873
Revenue in lieu of tax	304,921	-	304,921
Licenses and permits	253,372	25,956	279,328
Fees for services	1,665,110	323,695	1,988,805
Rent	190,327	-	190,327
Interest	5,531	194	5,725
Intergovernmental revenues	510,204	805,584	1,315,788
Other	91,789	-	91,789
Total revenues	<u>7,867,232</u>	<u>1,155,429</u>	<u>9,022,661</u>
Expenditures			
General government	900,531	-	900,531
Police department	2,287,602	-	2,287,602
Fire department	1,421,220	-	1,421,220
Public works	2,061,745	-	2,061,745
Recycling center	313,141	-	313,141
Building inspection	117,744	-	117,744
Parks and Recreation	533,061	-	533,061
Special projects	100,040	-	100,040
Main street	120,841	-	120,841
Arena expenditures	-	752,753	752,753
Debt Service	93,872	844,443	938,315
Total expenditures	<u>7,949,797</u>	<u>1,597,196</u>	<u>9,546,993</u>
Excess (deficit) of revenues over (under) expenditures	(82,565)	(441,767)	(524,332)
Other financing sources (uses)			
Proceeds from sale of assets	-	-	-
Proceeds from debt	177,169	-	177,169
Total other financing sources (uses)	<u>177,169</u>	<u>-</u>	<u>177,169</u>
Net change in fund balance	94,604	(441,767)	(347,163)
Fund balances, July 1, 2012	<u>3,701,887</u>	<u>(1,094,032)</u>	<u>2,607,855</u>
Fund balances, June 30, 2013	<u>\$ 3,796,491</u>	<u>\$ (1,535,799)</u>	<u>\$ 2,260,692</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CORBIN, KENTUCKY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES

Year ended June 30, 2013

Net change in total fund balances - governmental funds	\$ (347,163)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlay for the year.	(1,016,257)
Bond issuance costs are amortized over the life of the related bonds on the statement of activities.	(18,914)
Debt issuance cost is an expense in the governmental fund financial statements but is an asset in the government wide statements	-
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements but are reductions of liabilities in the statement of net assets.	711,804
Capital debt is shown as other sources and uses of funds in the governmental statements but is a liability in the government wide statements-net	(177,169)
The decrease in net pension obligation is not shown on the governmental fund statements because it is not expected to be satisfied with current economic resources, but it is recognized in the statement of activities.	72,963
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities.	<u>1,134</u>
Change in net assets - governmental activities	<u>\$ (773,602)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CORBIN, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2013

	Agency Funds	Pension Trust Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ 291,240
Investments	-	483,510
Receivables		
Interest	<u>-</u>	<u>927</u>
Total Assets	<u>-</u>	<u>775,677</u>
LIABILITIES		
Due to agencies	-	-
Total Liabilities	<u>-</u>	<u>-</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ -</u>	<u>\$ 775,677</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CORBIN, KENTUCKY

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

ADDITIONS

Tax revenue	\$ 439,305
Employee contributions	-
Interest	4,682
Other	<u>60</u>
Total revenues	<u>444,047</u>

DEDUCTIONS

Benefits	407,226
Plan administration	<u>60</u>
Total expenditures	<u>407,286</u>

Increase/(Decrease) in net assets 36,761

Net Assets, July 1, 2012 738,916

Net Assets Held in Trust for Pension Benefits, June 30, 2013 \$ 775,677

The accompanying notes are an integral part of these financial statements.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The financial reporting entity

The City of Corbin, Kentucky is a fourth-class city and operates under a City Manager/Commission form of government. The City's major operations include public safety, fire protection, public works, recreation and parks, and general administrative services. As defined by accounting principles generally accepted in United States of America (GAAP) that are established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. To be complete, the financial statements of the reporting entity should include the primary government and its component units. The City has not included its component units in these primary government financial statements for the year ended June 30, 2013.

Agencies and authorities which were evaluated for possible inclusion in the reporting entity were the Corbin Library Board, Corbin City Hall Public Corporation, the Corbin Industrial Commission, the Corbin City Utilities Commission, the Corbin Housing Authority, and the Corbin School District.

Based on the above criteria, the component units of the City are the Corbin Library Board, Corbin City Hall Public Corporation, and the Corbin City Utilities Commission. Component units of the City, except the Corbin City Hall Public Corporation, issue separately audited Component Unit Financial Statements (CUFS). Copies of the CUFS may be obtained from the City Clerk at Corbin City Hall. The City of Corbin Library Board did not issue audited financial statements in the current year.

The Corbin City Hall Public Corporation is governed by a board that is substantially the same as the City Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance certain projects and hold City property. The activity of the Corbin City Hall Public Corporation is blended with the City's financial statements.

Related organizations not determined to be component units include the Corbin Industrial Commission, Corbin School District, and the Corbin Housing Authority. The reasons for their exclusion are summarized below.

Corbin Industrial Commission

The commissions' governing board is approved by the mayor and commissioners, but there is no significant continuing relationship between the commission and the City. The management of the commission is selected by its governing board. The operation of the commission is the exclusive responsibility of the commission's management and the City has no authority to interfere with these operations. The commission is responsible for its own financial affairs, including the funding of deficits and the disposition of surpluses. The City guarantees none of the commission's debt.

Corbin Housing Authority/Corbin School District

Neither the housing authority nor the school district meets any of the criteria for oversight responsibility from the City of Corbin.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic financial statements

In accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Position and Statement of Activities) generally report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

The government-wide Statement of Net Position reports all financial and capital resources of the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net position, with the assets and liabilities shown in order of their relative liquidity. Net position is required to be displayed in three components: 1) Net investment in capital assets, 2) restricted, and 3) unrestricted. Net investment in capital assets is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or function. The City does not charge indirect expense to programs or functions. Interest on general long-term bonded debt is not allocated to the various functions, and interest on capital leases may be allocated to various functions. Program revenues include: 1) charges paid by the recipients of the goods, services, or privileges offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Also, part of the basic financial statements are fund financial statements for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The City does not have any proprietary funds except in discretely presented component units (business-type activities in the government-wide financial statements). The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds.

The City reports the following major governmental funds:

General Fund – The general fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The activity of City Hall Public Corporation is blended with the general fund.

Corbin Arena Fund – The Arena funds accounts for all the activity of the Arena including debt service. The Arena fund is considered a special revenue fund by the City.

Additionally, the City reports the following fund types:

Pension Trust Funds – The pension trust funds account for assets held on behalf of City employees.

Agency Funds – The agency funds account for tax revenue held by the City that is used to support the Corbin City School District and the Corbin Library District.

C. Measurement focus and basis of accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, licenses, fees and permits, intergovernmental revenues charges for services, fines, forfeits and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to; 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

D. Cash and cash equivalents and investments

For purposes of the basic financial statements, the City considers cash and cash equivalents to be all demand deposits, all certificates of deposit, and highly liquid, short-term security investments that are readily convertible to known amounts of cash and mature within three months of the date they are acquired. Deposits (cash and investments) are carried at cost which approximates market value. The carrying amount of all deposits is separately displayed on the balance sheet depending on the terms of the deposit. Restricted cash and investments are separately displayed on the balance sheet.

The City of Corbin, Kentucky is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities;
2. Bonds or certificates of indebtedness of this state and of its agencies and Instrumentalities;
3. Shares of any savings and loan association insured by an agency of the government of the United States up to the amount so insured;
4. Interest bearing deposits in nationally chartered or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in large amounts provided such bank shall pledge as security obligations of the United States government, its agencies and instrumentalities. Investments are stated as cost or amortized cost, which approximates market.

E. Receivables

All trade receivables are shown net of an allowance for uncollectible accounts and estimated refunds. As of June 30, 2013, the allowance for uncollectible accounts for governmental activities was \$8,221. Grants are fully recognized as revenues when earned because the City expects to collect the amount in full within 60 days of earning the revenue.

F. Prepaid expenses

Certain prepayments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government wide and fund financial statements.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Restricted assets

Certain grant proceeds, as well as funds set aside for the repayment of bonds are classified as restricted on the balance sheet and statement of net assets, because they are maintained in separate bank accounts or their use is limited by applicable grant agreements or debt covenants.

H. Capital assets

Under Governmental Accounting Standards Board Statement No. 34 (GASB-34, all capital assets, whether owned by governmental activities or business-type activities are recorded and depreciated in the government-wide financial statements. No capital assets or depreciation are shown in the governmental funds financial statements. The City generally considers assets with a cost of \$500 and useful lives in excess of one year or more to be a capital asset.

At the implementation of GASB-34, the City was a Phase 3 government (governments with total annual revenues of less than \$10 million). Consequently, the City was not required by the provisions of GASB-34 to report major infrastructure assets retroactively. The City chose not to record infrastructure assets retroactively; however, as of July 1, 2003, all infrastructure asset additions and disposals are reported by the City in their related categories.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Major additions that are substantially a new asset are capitalized over the useful lives of that asset category as determined by the City's management.

Major outlays for capital assets and improvements are capitalized as the projects are constructed and put into use. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	5 to 50 years
Improvements other than buildings	10 to 50 years
Machinery and equipment	3 to 20 years

Capital assets transferred between funds or functions are transferred at their net book value (cost less accumulated depreciation), as of the date of transfer.

I. Lease obligations

The City may have various assets under capital lease agreements. In the government wide financial statements, capital leases and the related lease obligations are reported as liabilities in the governmental activities of the statement of net assets.

J. Debt costs

Debt issuance costs in the amount of \$293,413 net of accumulated amortization are included in noncurrent assets. Debt issuance costs include the fees associated with issuance of debt. Both debt issuance costs and discounts are amortized over the lives of the related debt issues using the straight-line method.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Deferred revenues

Deferred revenues arise in governmental funds when revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenue may also arise, in both governmental and proprietary funds, when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures (unearned). In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The City assumes all delinquent taxes to be uncollectible at the end of the year and does not present accounts receivable or deferred revenue in connection with taxes receivable. However, the City does attempt to collect all delinquent taxes.

L. Compensated absences

Compensated absences, vacation and sick pay, for all City employees are paid by the City's general fund. It is the policy of the City to pay all accumulated vacation pay when an employee retires or terminates. The current portion of accrued and compensated absences is determined by the City based on historical averages. Vested vacation and sick pay benefits are accrued when incurred.

M. Pension plans

Full-time City employees are members of the State of Kentucky County Employees' Retirement System (CERS). The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of June 30 of the prior fiscal year by the System's actuary. Former employees are also members of the Police and Fireman's pension fund. The City funds the Police and Fireman's Pension Fund through special tax assessments.

N. Fund balances:

The Board has elected to adopt GASB Statement Number 54 for the current and subsequent reporting periods. This statement substantially changes the terminology used to describe different component of the fund balance. Under this statement, the fund balance is separated into five categories as follows:

Nonspendable:	Funds permanently nonspendable by decree of donor, such as an endowment or items which may not be used for another purpose, such as amounts used to prepay future expenses or already purchased inventory on hand.
Restricted:	Funds legally restricted under federal and state law, bond authority or grantor contract.
Committed:	Commitments passed by the Board for specific expenditures.
Assigned:	Funds assigned to management priority including issued encumbrances.
Unassigned:	Funds available for future operations

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

The City does not use encumbrance accounting.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Budgets and Budgetary accounting

The City follows procedures pursuant to KRS 91A.030 in establishing the budgetary data reflected in the financial statements as follows:

1. Prior to May 1 of each year, the Mayor submits to the Corbin City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between categories within each department; however, any revisions that alter the total expenditures of any fund must be approved by the Corbin City Commission.
5. Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Operating transfers required for debt service are accounted for in the budget of the City's general fund.
6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Actual expenditures may not exceed the legally adopted budget for any given fund.
7. The budget for the fiscal year ending June 30, 2013 was amended during the year. The amendment was approved in the same manner as the original budget was adopted.

P. Property taxes

Delinquent property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1, and are payable in full by December 31. The City bills and collects its own property taxes. City property tax revenues are recorded as receivables and deferred revenue at the time the tax levy is billed. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after the year-end. The City does not realize prior year delinquencies in the following year soon enough to make them available to meet current year expenditures, and fully reserves the uncollected balance at year's end as uncollectible. Since the net is zero they are not presented on the financial statements

Q. Special projects

The City uses its General Fund and Arena Fund to account for all governmental activity. In lieu of establishing a special revenue fund for capital projects, the City reflects acquisition and construction activities financed by governmental grants as "special projects" within the general fund. The City generally does not capitalize construction period interest in governmental funds.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

S. Inventory

Inventory is reported at cost and pertains only to the Arena at the David L. Williams Southeastern Kentucky Agriculture and Exposition Complex. There was no inventory at June 30, 2013.

NOTE 2 – CASH AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2013, the carrying amount of the City's cash and cash equivalents was \$1,608,485 with a bank balance of \$1,615,658. Of the total cash balance, \$1,250,000 was covered by federal depository insurance with the remaining balance, excluding petty cash of \$1,400, was covered by a collateral agreement and collateral held by the pledging bank's trust department in the City's name. By state statute, and City policy, the City may deposit funds in state and nationally chartered banks which provide FDIC insurance and sufficient collateral to secure deposits in excess of FDIC coverage. Cash equivalents are considered to be all demand deposits, certificates of deposit and highly liquid, short-term security investments that are readily convertible to known amounts of cash and mature within three months of the date they are acquired. Of the total cash balance, \$112,759 is considered restricted or committed. Restricted and committed cash is comprised restricted by grant agreements or Commission action. The remaining balance is unrestricted.

NOTE 3 - INVESTMENTS

City funds are considered to be public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2013, the City holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the City does not bear investment related credit risk or interest rate risk. The City has not adopted a formal investment policy.

NOTE 4 – CONTINGENCIES

A. Pending and Threatened Litigation

A number of claims and suits are pending against the City for alleged damages to persons and/or property and for other alleged liabilities arising out of matters usually incident to the operation of a city such as Corbin. In the opinion of City management, the City has strong defenses against such claims, and thus the ultimate loss, if any, relating to these claims and suits not covered by insurance, will not materially affect the financial position of the City.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

B. Short-term Line of Credit

The City of Corbin maintains a short-term line of credit of \$600,000. The purpose of the loan is to meet short-term commitments as needed. The balance owed on the line of credit at June 30, 2013 is \$113,642. A schedule of activity is presented below:

<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
<u>\$ 217,203</u>	<u>\$ -</u>	<u>\$ 103,561</u>	<u>\$ 113,642</u>

D. Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

Governmental activities	<u>Balance June 30,2012</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30,2013</u>
Land	\$ 2,593,027	\$ -	\$ -	\$ 2,593,027
Buildings and improvements	47,705,551		-	47,705,550
Improvements other than buildings	3,325,349	178,822	-	3,504,171
Equipment	5,876,133	303,146	-	6,179,279
Other	113,803	-	-	113,803
Construction in progress	-	-	-	-
	<u>59,613,862</u>	<u>481,968</u>	<u>-</u>	<u>60,095,830</u>
Less: Accumulated depreciaion				
Buildings and improvements	11,099,165	936,339	-	12,035,504
Improvements other than buildings	1,193,286	58,427	-	1,251,713
Equipment	4,917,382	497,769	-	5,415,151
Other	62,953	5,690	-	68,643
Total accumulated depreciation	<u>17,272,786</u>	<u>1,498,225</u>	<u>-</u>	<u>18,771,011</u>
Governmental activities, net capital assets	<u>\$ 42,341,076</u>	<u>\$ (1,016,257)</u>	<u>\$ -</u>	<u>\$ 41,324,819</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

Depreciation expense for governmental activities is charged to functions as follows:

General government	\$ 505,197
Police department	144,878
Fire department	11,003
Public works	69,585
Corbin recycling center	8,575
Parks and recreation	46,151
Building inspector	741
Arena	712,095
	<u>\$ 1,498,225</u>

NOTE – 6 LONG-TERM LIABILITIES

A. General Obligation Leases

Refinancing Lease

In November 2010, the City issued a General Obligation Capital Lease to refinance the City's 2000 General Obligation Bonds, and two previous Capital Leases associated with construction of the David L. Williams Arena. The total refinancing amount was \$6,975,000, which refinanced \$1,085,000 principal of the Series 2000 General Obligation Bonds and \$5,682,215 on Arena capital leases. In addition there was \$207,785 in cost of issuance. The lease bears variable interest in range from 4.2% to 5.2%. The debt service is split between the General Fund and the Corbin Arena Fund on a pro rata basis. The bond maturities and interest as of June 30, 2013 are as follows:

Year ending <u>June 30,</u>	Principal <u>Payment</u>	Interest <u>and Fees</u>	<u>Total</u>
2014	\$ 367,083	\$ 219,453	\$ 586,536
2015	376,250	209,652	585,902
2016	389,167	197,724	586,891
2017	399,167	184,776	583,943
2018	411,250	171,803	583,053
2019	426,250	158,438	584,688
2020	439,167	144,584	583,751
2021	397,083	130,311	527,394
2022	336,250	117,062	453,312
2023	349,166	104,934	454,100
2024	361,250	92,087	453,337
2025	376,250	77,908	454,158
2026	391,250	62,858	454,108
2027	405,250	46,792	452,042
2028	423,333	29,526	452,859
2029	254,748	11,222	265,970
	<u>\$ 6,102,914</u>	<u>\$ 1,959,131</u>	<u>\$ 8,062,045</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 6 – LONG-TERM LIABILITIES (Continued)

David L. Williams Southeastern Kentucky Agriculture Exposition Complex (ARENA)

During the year ended June 30, 2009 and June 30, 2010 the City entered into lease agreements with the Kentucky League of Cities in order to provide final financing for the Arena. Proceeds from the leases were \$8,000,000, and \$3,000,000 including \$149,510 of debt issuance cost. The two \$3,000,000 notes were refinanced in the current year leaving the \$5,000,000 lease to be repaid over in monthly payments over a period of 20 years. The effective interest rate is stated at 2% with true interest cost stated as variable between 3.39% and 4.02%. The actual interest rate may vary based on indices used by the Kentucky League of Cities. Future principal and anticipated interest rates as of June 30, 2013 are:

Year ending <u>June 30.</u>	Principal <u>Payment</u>	Interest <u>and Fees</u>	<u>Total</u>
2014	\$ 204,471	\$ 113,114	\$ 317,585
2015	212,298	107,367	319,665
2016	220,169	101,590	321,759
2017	228,986	95,143	324,129
2018	237,537	88,858	326,395
2019	246,622	82,190	328,812
2020	255,867	75,405	331,272
2021	265,933	68,037	333,970
2022	275,950	60,679	336,629
2023	286,496	52,941	339,437
2024	297,337	44,987	342,324
2025	308,855	36,546	345,401
2026	320,576	27,943	348,519
2027	332,819	18,962	351,781
2028	345,514	9,648	355,162
2029	88,426	910	89,336
	<u>\$ 4,127,856</u>	<u>\$ 984,320</u>	<u>\$ 5,112,176</u>

B. Capital Lease Obligations

Caterpillar Financial Service

During the fiscal year ended June 30, 2013, the City entered into a capital lease agreement with Caterpillar Financial Service in the amount of \$53,270 for the purchase of equipment. The note bears no interest and the city does not believe the zero interest is a material item and therefore does not impute interest. The balance of the lease at June 30, 2013 was 46,669 The City will pay monthly payments of \$1,650 from the general fund over a period of remaining as June 30, 213 follows:

Fiscal Year Ended June 30,	<u>Principal</u>
2014	\$ 19,800
2015	19,800
2016	<u>7,069</u>
	<u>\$ 46,669</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 6 – LONG-TERM LIABILITIES (Continued)

Garbage Truck

The City entered into a long-term non-cancelable lease with the TCF Bank in the amount of \$123,899 during the fiscal year ended June 30, 2013 for the purchase of a garbage truck. The lease qualifies as a capital lease for accounting purposes as defined under the Financial Accounting Standards Board Statement No. 13, Accounting for Leases and therefore has been recorded at the present value of future minimum lease payments at the inception of the leases. The City will pay monthly payments including an amount representing interest of 3.29% to TCF, with the final payment due on October 23, 2017. The payments have historically been made through the City's general fund. The present value of lease payments at June 30, 2013 was \$108,512. Minimum required rental payments under this capital lease, together with the net present value of the minimum lease payments as of June 30, 2013 are:

Fiscal Year Ended June 30,	Amount
2014	\$ 26,861
2015	26,861
2015	26,861
2017	26,861
2018	8,959
	<hr/>
	116,403
Less amount representing interest	7,891
	<hr/>
Present value of minimum lease payments	\$ 108,512

B. Notes Payable

Kubota Credit

The City entered into a note agreement with Kubota Credit for the year ended June 30, 2012 in the amount of \$8,048 for the acquisition of equipment. The note bears no interest and the City will pay monthly payments in the amount of \$223 for 36 months until the note is retired in October 2015. The payments will be made through the City's general fund. The future debt service as of June 30, 2013 is as follows:

Fiscal Year Ended June 30,	Amount
2014	\$ 2,683
2015	894
	<hr/>
Total	\$ 3,577

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 6 – LONG-TERM LIABILITIES (Continued)

Changes in long-term liability for the year ended June 30, 2013 were as follows:

	Balance <u>June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2013</u>
KADD 2002 Lease	\$ 65,000	\$ -	\$ 65,000	\$ -
KLC Leases	4,325,037	-	197,182	4,127,855
KLC Refinancing Lease	6,462,083	-	359,167	6,102,916
Hometown Bank Note Payable	65,786	-	65,786	-
Caterpillar Financial Service	-	53,270	6,600	46,670
TCF Bank	-	123,899	15,387	108,512
Kubota Credit	6,260	-	2,683	3,577
Net pension obligation	1,155,680	-	72,963	1,082,717
Accrued absences	110,660	-	-	110,660
	<u>\$ 12,190,506</u>	<u>\$ 177,169</u>	<u>\$ 784,768</u>	<u>\$ 11,582,907</u>

Capital assets under capital lease at June 30, 2013 consist of garbage truck and a skid steer. In addition, the Arena and related assets are under a lease purchase agreements. The City's management believes that all debt covenants are being complied with.

NOTE 7 – PENSION PLANS

A. General Government Employees

The City contributes to the Kentucky County Employees Retirement System (CERS), which is a cost-sharing multiple-employer public employer retirement system (PERS) administered by the Kentucky retirement system. All full-time employees are eligible and must participate in the State PERS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits to plan members and their beneficiaries. A member may retire after reaching the age of 55 or accumulating 27 years (20 years for hazardous-pay employees) of service with the City or another entity covered by the State PERS. Employees who retire at or after age 55 with 27 (20 years for hazardous-pay employees) or more years of service are entitled to pension payments for the remainder of their lives equal to a percentage of their final salary which depends on the number of years they were employed by a participant in the state PERS. Ten-year historical trend information showing CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their comprehensive annual financial statements and required supplementary information. The report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601. Separate pension information pertaining solely to the City of Corbin, Kentucky is not available.

Funding Policy: Employees of the City are required to pay 5% (7.67% for hazardous-pay employees) of their gross earnings to the pension plan. The City makes annual contributions to pension plan equal to the amount required by state statutes. During the year the City was required to contribute 18.96% (35.76% for hazardous-pay employees) of its gross payroll to the plan. Covered payroll was \$3,274,148. Total contributions for the year ending June 30, 2013 were \$1,053,556 of which the City contributed \$944,728 and the employees contributed \$209,312. The City's contributions to the County Employee's Retirement systems for the years ending June 30, 2013, 2012 and 2011 were \$944,727, \$855,121, and \$731,648, respectively. The City's contributions were equal to the contractually required contributions as set by state statutes.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 7 – PENSION PLANS (Continued)

B. Police and Fireman's Pension Fund

The City contributes to a defined benefit plan, the Corbin Police and Fireman's Fund, which is a single-employer pension employee retirement system (PERS). It is the responsibility of the Corbin PERS to function as an investment and administrative agent for the City of Corbin with respect to the pension plan. The plan is included in the accompanying financial statements as a pension trust fund.

Based on state statutes, all full-time employees must participate in city or municipality pension plans. Under the provisions of the City's pension plan, pension benefits vest after twenty years of full-time employment. An employee may retire after twenty years of service and receive annual pension benefits equal to one-half of the employee's salary, including incentive pay, earned during the last year of employment. Also, the pension plan provides for death and disability benefits. All pension, death, and disability benefits are determined by state statutes. The Fund is closed to new participants, and there are no active employees in the plan.

The Plan uses the accrual basis of accounting. Investment income is recognized when incurred and contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the Plan. The Plan does not issue stand-alone financial statements; however, it is presented in the City's financial statements as the Pension Trust Fund. Two investments represented more than 5% of the net assets available for benefits. Long term certificates of deposit in the amounts of \$100,000 and \$389,510 represented 12.89% and 49.44% of total holdings respectively. The remaining assets are held in an interest bearing checking account and interest receivable. The checking account represents 37.55% of total holdings. The cost of administering the plan is financed by the Pension Trust Fund. There are no related party transactions.

According to KRS 95.629, if there are insufficient funds, the City will be held responsible for the monthly payment of the pensions after the entire proceeds of the pension fund have been transferred to the general fund of the City. Required contributions are determined by actuarial valuation report but must be approved by the City Commission. City contributions are determined by City ordinance and for the year ended June 30, 2010 is 28% of all property taxes collected by the City. Historically the funding policy has been less than the actuarially determined contribution requirement, resulting in a net pension obligation. Membership in the plan as of the actuarial valuation date is thirty participants. None were active and the population is made up of retired or terminated participants with deferred vested benefits.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 7 – PENSION PLANS (Continued)

Funding Policy and Annual Pension Cost—the annual pension cost for the current year and related information for the plan is as follows:

Annual Pension Cost	\$ 371,024
Contributions made	\$ 439,305
Actuarial valuation date	July 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Amortization period open	20 years
Remaining amortization period	18 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	4%
Projected salary increase	N/A
Inflation rate	N/A

Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation (Benefit)
6/30/2011	\$ 427,853	94.00%	\$ 1,204,028
6/30/2012	\$ 368,802	113.00%	\$ 1,155,680
6/30/2013	\$ 371,024	120.00%	\$ 1,082,717

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Value of Assets (a)	Accrued Liability (AAL) (b)	AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll (b-a)/c
12/1/2005	781,966	6,890,979	6,109,013	11%	186,531	3275%
7/1/2008	962,413	7,028,593	6,066,180	14%	118,322	5127%
7/1/2011	745,281	5,968,251	5,222,970	12%	-	N/A

The net pension obligation has been calculated for the City of Corbin Police and Fireman's pension fund as follows:

Annual required contribution	\$ 369,536
Interest on net pension obligation	(1,934)
Adjustment to annual required contribution	(3,422)
Annual pension cost	371,024
Contributions made	<u>443,987</u>
Increase in net pension obligation	(72,963)
Net pension obligation at beginning of year	<u>1,155,680</u>
Net pension obligation at end of year	<u>\$ 1,082,717</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE – 8 OTHER POST EMPLOYMENT BENEFITS

The City does not offer other post employment benefits to its employees.

NOTE – 9 LEASES

The City receives rental income principally for real property from various agencies. Future minimum rental commitments under these leases are insignificant. Rental income from these sources totaled approximately \$190,327 for the year ended June 30, 2013.

NOTE – 10 MUNICIPAL AID FUNDS

The City receives municipal aid funding from the State of Kentucky. These funds are restricted for the specific purposes and may be shown in a separate fund; however, the City chooses to account for Municipal Aid through its general fund. Municipal Aid funds received for the year amounted to \$217,630. At the end of the year, there was \$44,167 in restricted cash.

NOTE – 11 LOCAL GOVERNMENT ECONOMIC ASSISTANCE

The City receives LGEA funding from the State of Kentucky. The funds are restricted for specific purposes, and, the City chooses to account for LGEA revenues and expenditures through its general fund. Local Government Economic Assistance funds received for the year amounted to \$62,827. . At the end of the year, there was \$4,514 remaining in restricted cash.

NOTE – 12 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the City participates in the Kentucky League of Cities Insurance Services. The City pays an annual premium to each fund for coverage. Workers' Compensation premiums are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications.

In accordance with KRS 65.067, the City bonds officials or employees who handle public funds in an amount covering the maximum amount they may have under their control at any given time. This statute applies to all officers, officials, and employees of all local governments who handle public funds in an execution of their duties. In order to comply with the regulation, the City purchases insurance bonds through various agencies.

There has been no reduction in insurance coverage from the previous year in any of the City's policies. In addition, there have been no settlements in excess of the City's coverage in the past three years.

NOTE – 13 NONSPENDABLE FUND BALANCE

At June 30, 2013, the City of Corbin had \$1,182 in nonspendable fund balances representing prepaid insurance in the same amount.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE – 14 RESTRICTED NET ASSETS

Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Restricted assets included \$3,837 in police forfeiture, \$4,515 for LGEA and \$61,771 for MARF activities.

NOTE – 15 COMMITTED NET ASSETS

Committed net assets are those with constraints placed on their use by the governing body of the City. Committed net assets included \$36,131 set aside in the Tourism Lighting Account.

NOTE – 16 IMPLEMENTATION OF GASB STATEMENT NUMBER 63

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013. This standard established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position.

The noticeable changes to this audit include the use of the new wording, “net position,” instead of the previously used wording of “net assets” and resulted in only a formatting change in the current year.

NOTE – 17 ALCOHOL REGULATORY FEES

The City collected approximately \$775,000 in alcohol regulatory fees and license fees during the year ended June 30, 2013. According to KRS 243.075 the license fee must be estimated to fully reimburse the City for the estimated costs of any additional policing, regulatory, or administrative expenses related to the sale of alcohol in the City. The regulatory fees cannot be used for general expenses. The City management believes that all revenue has been expended in accordance with Kentucky law.

NOTE – 18 SUBSEQUENT EVENTS

The City’s management has evaluated subsequent events through December 16, 2013, the date which the financial states were available to be issued. Management has noted no issues that affect the current financial statements.

SUPPLEMENTARY INFORMATION

CITY OF CORBIN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 Year Ended June 30, 2013

	General Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
REVENUES	<u>\$ 7,333,569</u>	<u>\$ 8,058,750</u>	<u>\$ 7,867,232</u>	<u>\$ (191,518)</u>
EXPENDITURES				
General government	968,345	941,750	900,531	(41,219)
Police department	1,924,156	2,300,000	2,287,602	(12,398)
Fire department	1,179,179	1,450,000	1,421,220	(28,780)
Public works	1,779,253	1,946,500	2,061,745	115,245
Recycling center	302,023	325,000	313,141	(11,859)
Building inspection	122,533	125,000	117,744	(7,256)
Parks and recreation	663,737	550,000	533,061	(16,939)
Special projects	60,700	191,500	100,040	(91,460)
Main street	124,893	135,000	120,841	(14,159)
Arena	161,750	-	-	-
Total expenditures	<u>7,286,569</u>	<u>7,964,750</u>	<u>7,855,925</u>	<u>(108,825)</u>
OTHER FINANCING SOURCES				
Lease proceeds	-	-	177,169	177,169
Total other financing sources	-	-	177,169	177,169
OTHER FINANCING USES				
Bonded debt service	(47,000)	(94,000)	(93,872)	(128)
Total other financing sources	<u>(47,000)</u>	<u>(94,000)</u>	<u>(93,872)</u>	<u>(128)</u>
Net Change in Fund Balance	-	-	94,604	94,604
Fund balance, July 1, 2012	<u>3,701,887</u>	<u>3,701,887</u>	<u>3,701,887</u>	-
Fund balance June 30, 2013	<u>\$ 3,701,887</u>	<u>\$ 3,701,887</u>	<u>\$ 3,796,491</u>	<u>\$ 94,604</u>

See accompanying notes.

CITY OF CORBIN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 ARENA FUND

Year Ended June 30, 2013

	Arena Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
REVENUES	\$ 1,504,493	\$ 1,675,000	\$ 1,155,429	\$ (519,571)
EXPENDITURES				
Arena	1,504,493	1,675,000	752,753	(922,247)
Total expenditures	1,504,493	1,675,000	752,753	(922,247)
OTHER FINANCING SOURCES				
Lease proceeds	-	-	-	-
Total other financing sources	-	-	-	-
OTHER FINANCING USES				
Capital debt service	-	-	(844,443)	844,443
Total other financing sources	-	-	(844,443)	844,443
Net Change in Fund Balance	-	-	(441,767)	402,676
Fund balance, July 1, 2012	(1,094,032)	(1,094,032)	(1,094,032)	-
Fund balance June 30, 2013	\$ (1,094,032)	\$ (1,094,032)	\$ (1,535,799)	\$ 402,676

The budget should have been detailed to show projected debt service expenditures from the Arena Fund. All expenses were grouped as "Arena". The budget was not exceeded.

See accompanying notes.

CITY OF CORBIN, KENTUCKY

REQUIRED SUPPLEMENTARY INFORMATION

PENSION TRUST FUND

SCHEDULE OF FUNDING PROGRESS

June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2005	\$ 781,966	\$ 6,890,979	\$ 6,109,013	11%	\$ 186,531	3275%
7/1/2008	\$ 962,413	\$ 7,028,593	\$ 6,066,180	14%	\$ 118,322	5127%
7/1/2011	\$ 745,281	\$ 5,968,251	\$ 5,222,970	12%	\$ -	N/A

Fiscal Year	Annual Pension Cost	Percentage Contributed
2009	\$ 424,769	95%
2010	\$ 428,564	90%
2011	\$ 427,853	94%
2012	\$ 368,802	113%
2013	\$ 371,024	120%

Actuarial valuation date July 1, 2011
 Actuarial cost method Entry age normal
 Amortization method Level dollar
 Amortization period open 20 years
 Remaining amortization period 18 years
 Asset valuation method Market

Actuarial assumptions
 Investment rate of return 4%
 Projected salary increase N/A
 Inflation rate N/A

CITY OF CORBIN, KENTUCKY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2013

Note A - Budgets and Budgetary accounting

The City follows procedures pursuant to KRS 91A.030 in establishing the budgetary data reflected in the financial statements as follows:

1. Prior to May 1 of each year, the Mayor submits to the Corbin City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between categories within each department; however, any revisions that alter the total expenditures of any fund must be approved by the Corbin City Commission.
5. Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Operating transfers required for debt service are accounted for in the budget of the City's general fund.
6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Actual expenditures may not exceed the legally adopted budget for any given fund.
7. The budget for the fiscal year ending June 30, 2013 was amended during the year. The amendment was approved in the same manner as the original budget was adopted.

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

Independent Auditor's Report

Mayor and Commissioners
City of Corbin
Corbin, Kentucky

We have audited, in accordance with the 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, the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Corbin, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Corbin, Kentucky's basic financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control over Financial Reporting

Management of City of Corbin, Kentucky is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered City of Corbin, Kentucky'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 City of Corbin, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Corbin, Kentucky'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. We have identified significant deficiencies in a separate Comments and Recommendations Letter dated December 16, 2013

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 identify deficiencies in internal control that we consider to be material weaknesses that are presented in the attached Comments and Recommendations letter dated December 16, 2013. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Corbin, Kentucky'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 entity'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.

Cloyd & Associates, PSC

Corbin, Kentucky
December 16, 2013

Mayor and Commissioners
City of Corbin
Corbin, Kentucky

In planning and performing our audit of the basic financial statements of the City of Corbin, Kentucky for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated December 16,, 2013, on the basic financial statements of City of Corbin, Kentucky.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City management personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Clayd & Associates, PSC

Corbin, Kentucky
December 16,, 2013

Comments and Recommendations
City of Corbin, Kentucky
June 30, 2013

Material Weaknesses

We noted the following deficiencies that we consider to be material weaknesses. All material weaknesses are also considered significant deficiencies.

1. There is a failure to establish sufficient controls over accounting for fixed assets. Fixed assets should be determined by City Management including department managers as they are purchased.
2. There is a failure to insure that annual audits are performed on all component units. The Corbin Public Library was determined to be a component unit but was not audited. All component units must be audited and included in the financial statements for the audit to be considered complete.
3. There is a failure to timely record transactions of the Corbin Arena. The Arena uses a partially decentralized accounting. The transactions are not timely recorded in the City's general ledger but should be included at least monthly.

Significant deficiencies

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. We consider the following control deficiencies to be significant deficiencies.

4. There is a failure to provide formal fraud training for City employees. Fraud training should be conducted at least annually and with all new employees.
5. There is a failure of City management to be able produce GAAP financial statements; however, the City management does indicate an understanding of the underlying financial assertions upon which the GAAP financial statements are produced.
6. There is a failure of City Management to have the actuarial study of the Police and Firemen's Pension Fund to be conducted timely in accordance with GAAP which requires that the actuarial study be conducted at least every two years. The City is in compliance with Kentucky law in this regard which requires that such studies be conducted at least every three years.

Note: All material weaknesses are also significant deficiencies.

Management response: Management is working diligently to resolve all issues and has devoted resources to eliminating weaknesses.