

CITY OF CORBIN
Corbin, Kentucky

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014
with
INDEPENDENT AUDITOR'S REPORT

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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, 2014, 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, 2014. Assets and net position mentioned above are primarily made up of capital assets in the Corbin Utility Commission. There is no aggregate remaining fund information in any of the 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, 2014, 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, 2014, 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 have 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 October 14, 2014, 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

October 14, 2014
Corbin, KY

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2014

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, 2014. 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 \$1,528,370 comprised of \$36,219 in restricted cash and \$1,492,151 in unrestricted cash. The prior year's cash balance was \$1,608,485 comprised of \$112,259 in restricted cash and \$1,495,726 in unrestricted cash.
- The City's combined net position decreased by \$848,117 or approximately 2.7% between 2013 and 2014.
- The General Fund had approximately \$7.7 million in revenue, which primarily consisted of tax revenue, fees for services, regulatory fees, and intergovernmental revenue. There was an overall increase, in the General Fund net asset balance of approximately \$3,912 which represents approximately a .1% increase relative to the prior year. The Corbin Arena Fund showed an overall decrease of \$253,474. The total overall decrease for governmental funds was \$249,562 or approximately 11% between 2013 and 2014.
- The City's total long-term liabilities decreased by \$601,444, relative to 2013. Short term debt increased by \$125,000 during the year. The ending long-term debt balance was \$11,201,524 including the net pension obligation and accrued absences. The short-term debt balance at the end of the year was \$238,642.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2014

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 \$31 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, 2014

The City as a Whole

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

	Governmental Activities		Total	
	2013	2014	2013	2014
Current and other assets	\$ 3,328,513	\$ 2,910,979	\$ 3,328,513	\$ 2,910,979
Capital assets, net of depreciation	41,324,819	40,124,821	41,324,819	40,124,821
Total Assets	44,653,332	43,035,800	44,653,332	43,035,800
Deferred outflows of resources	-	46,439	-	46,439
Short-term liabilities	1,412,285	1,535,739	1,412,285	1,535,739
Other liabilities	10,949,391	10,569,795	10,949,391	10,569,795
Total Liabilities	12,361,676	12,105,534	12,361,676	12,105,534
Net assets				
Net investment in capital assets	31,344,303	30,048,164	31,344,303	30,048,164
Restricted	107,436	7,145	107,436	7,145
Unrestricted	839,918	921,196	839,918	921,196
Total Net Position	\$ 32,291,657	\$ 30,976,505	\$ 32,291,657	\$ 30,976,505

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

	Governmental Activities		Total	
	2013	2014	2013	2014
Revenues				
Program revenues				
Charges for services	\$ 1,994,155	\$ 2,076,313	\$ 1,994,155	\$ 2,076,313
Operating Grants & contributions	1,291,170	567,006	1,291,170	567,006
Capital Grants & contributions	24,618	809,244	24,618	809,244
General revenues				
Local taxes	4,376,026	4,382,581	4,376,026	4,382,581
Regulatory fees	774,873	817,722	774,873	817,722
Licenses and permits	279,328	247,720	279,328	247,720
Earnings on investments	376	17,806	376	17,806
Other	91,789	69,786	91,789	69,786
Total revenues	8,832,335	8,988,178	8,832,335	8,988,178
Expenses				
General government	1,231,967	1,270,251	1,231,967	1,270,251
Police department	2,312,762	2,323,220	2,312,762	2,323,220
Fire department	1,364,328	1,273,499	1,364,328	1,273,499
Public works	1,894,405	1,877,675	1,894,405	1,877,675
Recycling center	321,716	372,172	321,716	372,172
Building inspector	118,485	94,663	118,485	94,663
Parks and recreation	482,034	536,633	482,034	536,633
Special projects	100,040	71,798	100,040	71,798
Arena	1,462,718	1,467,021	1,462,718	1,467,021
Downtown main street	101,495	226,433	101,495	226,433
Interest on debt service	406,314	322,930	406,314	322,930
Total expenses	\$ 9,796,264	\$ 9,836,295	\$ 9,796,264	\$ 9,836,295
Increase/(Decrease) in net position	\$ (963,929)	\$ (848,117)	\$ (963,929)	\$ (848,117)

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

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2014

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for fiscal years 2014 and 2013:

	<u>2013</u>	<u>2014</u>
Revenues and other financing sources		
Tax and related revenue	\$ 5,150,899	\$ 5,200,303
Licenses and permits	279,328	247,720
Fees for services	1,988,805	2,076,313
Rent	190,327	168,217
Investments	5,725	17,806
Intergovernmental	1,315,788	1,208,033
Other	91,789	69,786
Debt issue	177,169	-
	<u>9,199,830</u>	<u>8,988,178</u>
Expenditures and other financing uses		
General government	900,531	932,509
Police department	2,287,602	2,212,648
Fire department	1,421,220	1,279,080
Public works	2,061,745	1,830,111
Recycling center	313,141	391,450
Building inspection	117,744	94,671
Parks and recreation	533,061	527,149
Special projects	100,040	71,798
Downtown main street	120,841	240,823
Arena	752,753	801,637
Debt service	938,315	855,864
	<u>9,546,993</u>	<u>9,237,740</u>
Net change in fund balance	<u>\$ (347,163)</u>	<u>\$ (249,562)</u>

General Fund Revenue

The majority of revenue, net of debt, was derived from tax revenue (52% in 2014 and 51% in 2013). Fees for services made up 21% of revenue in 2014 and 22% in 2013. Interest income made up 0.22% of total revenues in 2014 and 0.07% in 2013.

BUDGETARY IMPLICATION

The City's fiscal year is July 1 - 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, 2014

	Primary Government	
	Governmental	
	<u>Activities</u>	<u>Total</u>
ASSETS		
Cash and cash equivalents - unrestricted	\$ 1,492,151	\$ 1,492,151
Restricted cash and cash equivalents	36,219	36,219
Taxes receivable:		
Restaurant tax	249,106	249,106
Insurance tax	347,385	347,385
Occupational tax	299,675	299,675
Regulatory fees receivable	68,059	68,059
Other receivables (net of allowance for uncollectible accounts)	223,113	223,113
Prepaid expense	601	601
Due from component units	194,470	194,470
Investment in fixed assets, net		
Non-depreciable	2,618,027	2,618,027
Depreciable	37,506,794	37,506,794
Total assets	<u>43,035,600</u>	<u>43,035,600</u>
Deferred outflows of resources		
Deferred debt increase created by debt refundings	46,439	46,439
LIABILITIES		
Accounts payable	228,412	228,412
Accrued expenses	142,940	142,940
Due to component units	269,955	269,955
Short term loan payable	238,642	238,642
Accrued interest	24,061	24,061
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	895	895
Current portion lease purchase agreements payable	571,554	571,554
Pension liability payable	992,805	992,805
Long-term portion of capital leases	77,432	77,432
Long-term portion of lease purchase agreements payable	9,387,196	9,387,196
Non-current portion of accrued compensated absences	112,362	112,362
Total liabilities	<u>12,105,534</u>	<u>12,105,534</u>
NET POSITION		
Net investment in capital assets	30,048,164	30,048,164
Restricted for:		
Operations	7,145	7,145
Capital expenditures	-	-
Unrestricted	921,196	921,196
Total net position	<u>\$ 30,976,505</u>	<u>\$ 30,976,505</u>

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

CITY OF CORBIN, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Corbin Arena Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents - unrestricted	\$ 1,492,151	\$ -	\$ 1,492,151
Restricted cash and cash equivalents	36,219	-	36,219
Taxes receivable			
Restaurant tax	249,106		249,106
Insurance tax	347,385	-	347,385
Occupational tax	299,675	-	299,675
Regulatory fees receivable	68,059	-	68,059
Other receivables (net of allowance for uncollectible accounts)	192,602	30,511	223,113
Prepaid expenses	601	-	601
Due from Arena Fund	1,996,433	-	1,996,433
Due from component units	-	194,470	194,470
Total assets	\$ 4,682,231	\$ 224,981	\$ 4,907,212
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 210,591	\$ 17,821	\$ 228,412
Accrued expenses	142,940	-	142,940
Short-term obligations payable	238,642	-	238,642
Current portion of accrued compensated absences	19,700	-	19,700
Due to General Fund	-	1,996,433	1,996,433
Due to Component Units	269,955	-	269,955
Total liabilities	881,828	2,014,254	2,896,082
Fund balances			
Nonspendable	601	-	601
Restricted	7,145	-	7,145
Committed	29,074	-	29,074
Assigned	-	-	-
Unassigned	3,763,583	(1,789,273)	1,974,310
Total fund balances	3,800,403	(1,789,273)	2,011,130
Total liabilities and fund balances	\$ 4,682,231	\$ 224,981	\$ 4,907,212

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, 2014

Total fund balances - governmental funds	\$ 2,011,130
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 capital assets net of depreciation are:	40,124,821
Deferred difference of reacquisition price of refunding bond and refunded bond are not recognized in the governmental funds but are recognized as deferred outflows in the statement of net assets.	46,439
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.	(10,076,657)
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.	(992,805)
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.	(112,362)
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>(24,061)</u>
Total net assets - governmental activities	<u>\$ 30,976,505</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, 2014

	General Fund	Corbin Arena Fund	Total Governmental Funds
Revenues			
Taxes:			
Property	\$ 992,490	\$ -	\$ 992,490
Motor vehicle	98,335	-	98,335
Occupational	1,330,960	-	1,330,960
Municipal insurance	1,498,147	-	1,498,147
Other	85,762	29,014	114,776
Alcohol regulatory fees and licenses	817,722	-	817,722
Revenue in lieu of tax	347,873	-	347,873
Licenses and permits	247,720	-	247,720
Fees for services	1,632,391	443,922	2,076,313
Rent	168,217	-	168,217
Interest	17,741	65	17,806
Intergovernmental revenues	418,656	789,377	1,208,033
Other	63,073	6,713	69,786
Total revenues	<u>7,719,087</u>	<u>1,269,091</u>	<u>8,988,178</u>
Expenditures			
General government	932,509	-	932,509
Police department	2,212,648	-	2,212,648
Fire department	1,279,080	-	1,279,080
Public works	1,830,111	-	1,830,111
Recycling center	391,450	-	391,450
Building inspection	94,671	-	94,671
Parks and Recreation	527,149	-	527,149
Special projects	71,798	-	71,798
Main street	240,823	-	240,823
Arena expenditures	-	801,637	801,637
Debt Service	134,936	720,928	855,864
Total expenditures	<u>7,715,175</u>	<u>1,522,565</u>	<u>9,237,740</u>
Excess (deficit) of revenues over (under) expenditures	3,912	(253,474)	(249,562)
Other financing sources (uses)			
Proceeds from debt	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	3,912	(253,474)	(249,562)
Fund balances, July 1, 2013	<u>3,796,491</u>	<u>(1,535,799)</u>	<u>2,260,692</u>
Fund balances, June 30, 2014	<u>\$ 3,800,403</u>	<u>\$ (1,789,273)</u>	<u>\$ 2,011,130</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, 2014**

Net change in total fund balances - governmental funds	\$ (249,562)
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.	(1,199,999)
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 position.	532,934
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.	89,912
The increase in accumulated vacation payable is not considered part of the current liability on the governmental fund financial statement but the full amount is expensed as incurred on the statement of activities	<u>(21,402)</u>
Change in net position - governmental activities	<u>\$ (848,117)</u>

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

CITY OF CORBIN, KENTUCKY

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2014

	Agency Funds	Pension Trust Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ 357,220
Investments	-	484,255
Receivables		
Interest	<u>-</u>	<u>927</u>
Total Assets	<u>-</u>	<u>842,402</u>
LIABILITIES		
Due to agencies	-	-
Total Liabilities	<u>-</u>	<u>-</u>
NET POSITION		
Held in trust for pension benefits	<u>\$ -</u>	<u>\$ 842,402</u>

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

CITY OF CORBIN, KENTUCKY

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITON
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

ADDITIONS

Tax revenue	\$ 460,442
Employee contributions	-
Interest	2,530
Other	-
Total revenues	<u>462,972</u>

DEDUCTIONS

Benefits	396,199
Plan administration	48
Total expenditures	<u>396,247</u>

Increase/(Decrease) in net assets 66,725

Net Assets, July 1, 2013 775,677

Net Position Held in Trust for Pension Benefits, June 30, 2014 \$ 842,402

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

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2014

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, 2014.

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, the City of Corbin Tourist and Convention Commission, 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, the City of Corbin Tourist and Convention Commission 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.

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

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.

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

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. Debt proceeds and cost are reported as other financing sources.

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

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, 2014, the allowance for uncollectible accounts for governmental activities was \$5,026. 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.

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

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 or restricted by enabling legislation may be 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, as applicable, 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

Due to the adoption of GASB 63 and GASB 65 debt costs are no longer capitalized and amortized over the period of a loan. However, the difference of the reacquisition price and the carrying value of the old debt is capitalized and amortized over the shorter of the new or old debt remaining life. This adjustment resulted in a reduction of net assets in the amount of \$293,414 to recognize the elimination of the debt issuance cost and an increase of \$46,439 to recognize deferred outflows.

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Unearned revenues

Unearned 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, 2014

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, 2014 was amended during the year as in accordance with the law. 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.

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

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, 2014

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, 2014, the carrying amount of the City's cash and cash equivalents was \$1,528,370 which includes cash held by City Hall Public Corporation. The bank balance was \$1,694,625. The City also held \$841,475 in agency for the Corbin Police and Firemen's Pension Fund. Of the total cash balance, \$1,118,765 was covered by federal depository insurance with the remaining balance, excluding petty cash of \$2,140, covered by collateral agreements 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 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 exclusive of the Police & Firemen's Pension Fund, \$36,219 is considered restricted or committed. All Pension Fund cash is considered restricted. Restricted and committed cash is restricted by grant agreements, enabling legislation, 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, 2014, the City holds only demand deposits and certificates of deposit considered to be cash equivalents. The City holds two long term certificates of deposit in agency for the City of Corbin Police and Firemen's Pension Fund that do not bear material interest rate risk. Consequently, the City does not bear material 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, 2014

B. Short-term Line of Credit/ Short Term Loan

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, 2014 is \$213,642. The City also issued a note to Cumberland Valley Bank in the amount of \$25,000. The total short term borrowings at June 30, 2014 are outlined below:

<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>
<u>\$ 113,642</u>	<u>\$ 125,000</u>	<u>\$ -</u>	<u>\$ 238,642</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, 2014 was as follows:

Governmental activities	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2014</u>
Land	\$ 2,593,027	\$ 25,000	\$ -	\$ 2,618,027
Buildings and improvements	47,705,550		-	47,705,550
Improvements other than buildings	3,504,171	74,616	-	3,578,787
Equipment	6,179,279	100,331	-	6,279,610
Other	<u>113,803</u>	<u>-</u>	<u>-</u>	<u>113,803</u>
	<u>60,095,830</u>	<u>199,947</u>	<u>-</u>	<u>60,295,777</u>
Less: Accumulated depreciaion				
Buildings and improvements	12,035,504	993,127	-	13,028,631
Improvements other than buildings	1,251,712	128,865	-	1,380,577
Equipment	5,415,151	272,264	-	5,687,415
Other	<u>68,643</u>	<u>5,690</u>	<u>-</u>	<u>74,333</u>
Total accumulated depreciation	<u>18,771,011</u>	<u>1,399,946</u>	<u>-</u>	<u>20,170,956</u>
Governmental activities, net capital assets	<u>\$ 41,324,819</u>	<u>\$ (1,199,999)</u>	<u>\$ -</u>	<u>\$ 40,124,821</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
Year ended June 30, 2014

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

General government	\$ 472,058
Police department	135,374
Fire department	10,281
Public works	65,020
Corbin recycling center	2,240
Parks and recreation	43,124
Building inspector	692
Downtown main street	5,773
Arena	<u>665,384</u>
	<u>\$ 1,399,946</u>

NOTE – 6 LONG-TERM LIABILITIES

A General Obligation Leases- David L. Williams Southeastern Kentucky Agriculture-Exposition Complex (ARENA)

Refinancing Lease 2010- Arena and City Hall General Obligation Bonds

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, 2014 are as follows:

Year ending <u>June 30,</u>	Principal <u>Payment</u>	Interest <u>and Fees</u>	<u>Total</u>
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	349,168	104,934	454,102
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>\$ 5,735,833</u>	<u>\$ 1,739,678</u>	<u>\$ 7,475,511</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

NOTE 6 – LONG-TERM LIABILITIES (Continued)

Refinancing Lease 2012 - Arena

During the year ended June 30, 2012 the City entered into a current refunding of two previously refunded leases with a new capital lease based on bond series 2012A issued by the Kentucky Bond Corporation. Proceeds from the debt were \$4,550,000 which included \$4,387,037 to currently refund the existing lease and the balance to debt cost. The City failed to record the lease resulting in a prior period adjustment for fiscal year June 30, 2014 which reduced the city's beginning net position by \$220,061. The effective interest rate is 2.50% and 4.25%. Future principal and anticipated interest rates as of June 30, 2014 are:

Year ending <u>June 30,</u>	Principal <u>Payment</u>	Interest <u>and Fees</u>	<u>Total</u>
2015	\$ 127,083	\$ 169,768	\$ 296,851
2016	132,083	166,002	298,085
2017	137,083	161,710	298,793
2018	142,083	157,254	299,337
2019	145,000	152,637	297,637
2020	147,083	147,924	295,007
2021	150,000	143,144	293,144
2022	154,167	138,112	292,279
2023	162,083	132,633	294,716
2024	167,083	126,672	293,755
2025	172,084	120,406	292,490
2026	177,083	113,589	290,672
2027	184,167	106,062	290,229
2028	192,083	98,236	290,319
2029	199,167	90,071	289,238
2030	209,167	81,607	290,774
2031	219,167	72,718	291,885
2032	227,083	63,403	290,486
2033	236,251	53,512	289,763
2034	249,167	42,881	292,048
2035	259,167	31,669	290,836
2036	271,250	20,006	291,256
2037	163,333	7,613	170,946
	<u>\$ 4,222,917</u>	<u>\$ 2,397,629</u>	<u>\$ 6,620,546</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

NOTE 6 – LONG-TERM LIABILITIES (Continued)

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 management does not believe the zero interest is a material item and therefore does not impute interest. The balance of the lease at June 30, 2014 was \$30,169 The City will pay monthly payments of \$1,650 from the general fund over a period of remaining as June 30, 2014 follows:

Fiscal Year Ended June 30,	<u>Principal</u>
2015	\$ 23,100
2016	<u>7,069</u>
Present value of minimum lease payments	<u>\$ 30,169</u>

Garbage Truck –TCF Bank

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 und the Financial Accounting Standards Board Topic ASC 840, *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, 2014 was \$86,844 Minimum required rental payments under this capital lease, together with the net present value of the minimum lease payments as of June 30, 2014 are:

Fiscal Year Ended June 30,	<u>Amount</u>
2015	\$ 29,131
2016	26,861
2017	26,861
2018	<u>8,959</u>
	91,812
Less amount representing interest	<u>4,968</u>
Present value of minimum lease payments	<u>\$ 86,844</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

NOTE 6 – LONG-TERM LIABILITIES (Continued)

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 management does not believe the zero interest is a material item and therefore does not impute interest. 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, 2014 is as follows:

Fiscal Year Ended June 30,	Amount
2015	\$ 894
Total	\$ 894

Changes in long-term liability for the year ended June 30, 2014 were as follows:

	Balance <u>June 30, 2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2014</u>
KLC Refinancing Lease Series 2012	\$ 4,347,917	\$ -	\$ 125,000	\$ 4,222,917
KLC Refinancing Lease Series 2010	6,102,916	-	367,083	5,735,833
Caterpillar Financial Service	46,670	-	16,501	30,169
TCF Bank	108,512	-	21,668	86,844
Kubota Credit	3,576	-	2,682	894
Net pension obligation	1,082,717	-	89,912	992,805
Accrued absences	110,660	21,402	-	132,062
	<u>\$ 11,802,968</u>	<u>\$ 21,402</u>	<u>\$ 622,846</u>	<u>\$ 11,201,524</u>

Capital assets under capital lease at June 30, 2014 consist of garbage truck and a skid steer. In addition, the Arena and related assets are under lease purchase agreements. The City's management believes that all debt covenants are being complied with.

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

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% (7.98% 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 18.89% (35.70% for hazardous-pay employees) of its gross payroll to the plan. Covered payroll was \$3,401,120. Total contributions for the year ending June 30, 2014 were \$1,162,797 of which the City contributed \$935,551 and the employees contributed \$227,428. The City's contributions to the County Employee's Retirement systems for the years ending June 30, 2014, 2013 and 2012 were \$935,551, \$944,727, and \$855,121, respectively. The City's contributions were equal to the contractually required contributions as set by state statutes.

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 on-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 \$384,255 represented 11.87% and 45.61% of total holdings respectively.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

NOTE 7 – PENSION PLANS (Continued)

B. Police and Fireman’s Pension Fund (Continued)

The remaining assets are held in an interest bearing checking account and interest receivable. The checking account represents 42.40% 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, 2014 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. The population is made up of retired or terminated participants with deferred vested

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	\$	371,781
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		17 years
Asset valuation method		Market
Actuarial assumptions		
Investment rate of return		4%
Projected salary increase		N/A

CITY THREE YEAR TREND

Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation (Benefit)
6/30/2012	\$ 368,802	113%	\$ 1,155,680
6/30/2013	\$ 371,024	120%	\$ 1,082,717
6/30/2014	\$ 371,781	125%	\$ 992,805

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		(2,919)
Adjustment to annual required contribution		5,164
Annual pension cost		371,781
Contributions made		(461,693)
Increase in net pension obligation		(89,912)
Net pension obligation at beginning of year		1,082,717
Net pension obligation at end of year	\$	992,805

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2014

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 \$168,218 for the year ended June 30, 2014.

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 \$153,841.

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 \$52,307.

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, 2014, the City of Corbin had \$601 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, 2014

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, committed, or assigned are shown as unrestricted. Restricted assets included \$7,145 in police forfeiture funds.

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 \$16,028 set aside in the Tourism Lighting Account, and \$13,046 in the Police Special Operations Account.

NOTE – 16 IMPLEMENTATION OF GASB STATEMENT NUMBER 63

The City has implemented GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* which along with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, adopted in the prior year. This standard established guidance for properly classifying and reporting items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources, and net position in a statement of financial position.

The adoption of GASB 65 required changes to the Statement of Net Position. Beginning net position of the governmental activities was decreased \$293,414 to eliminate bond issuance cost which had been capitalized and amortized on previous statements. Additionally, beginning net position of the governmental activities increased \$46,439 to capitalize the deferred difference between the reacquisition cost and carrying value of refunded bonds issued prior to the 2013-14 fiscal year.

NOTE – 17 ALCOHOL REGULATORY FEES

The City collected approximately \$817,722 in alcohol regulatory and license fees during the year ended June 30, 2014. 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 RESTATEMENT OF NET POSITION

The beginning net position was decreased a total of \$467,035 due to the effect of GASB 63/65 and to establish the correct balance of the 2012 refunding debt

NOTE – 19 SUBSEQUENT EVENTS

The City's management has evaluated subsequent events through October 14, 2014, 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, 2014

	General Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
REVENUES	\$ 7,663,950	\$ 8,120,329	\$ 7,719,087	\$ (401,242)
EXPENDITURES				
General government	883,180	890,750	932,509	41,759
Police department	1,967,217	2,225,000	2,212,648	(12,352)
Fire department	1,261,829	1,300,000	1,279,080	(20,920)
Public works	1,984,400	2,069,400	1,830,111	(239,289)
Recycling center	402,832	402,832	391,450	(11,382)
Building inspection	133,350	100,000	94,671	(5,329)
Parks and recreation	519,500	550,000	527,149	(22,851)
Special projects	125,300	76,500	71,798	(4,702)
Downtown main street	130,495	250,000	240,823	(9,177)
Arena	162,000	162,000	-	(162,000)
Total expenditures	<u>7,570,103</u>	<u>8,026,482</u>	<u>7,580,239</u>	<u>(446,243)</u>
OTHER FINANCING SOURCES				
Proceeds from debt	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING USES				
Bonded debt service	<u>(93,847)</u>	<u>(93,847)</u>	<u>(134,936)</u>	<u>41,089</u>
Total other financing sources	<u>(93,847)</u>	<u>(93,847)</u>	<u>(134,936)</u>	<u>41,089</u>
Net Change in Fund Balance	-	-	3,912	3,912
Fund balance, July 1, 2013	<u>3,796,491</u>	<u>3,796,491</u>	<u>3,796,491</u>	<u>-</u>
Fund balance June 30, 2014	<u>\$ 3,796,491</u>	<u>\$ 3,796,491</u>	<u>\$ 3,800,403</u>	<u>\$ 3,912</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, 2014**

	Arena Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
REVENUES	<u>\$ 1,630,304</u>	<u>\$ 1,630,304</u>	<u>\$ 1,269,091</u>	<u>\$ (361,213)</u>
EXPENDITURES				
Arena	<u>1,630,304</u>	<u>1,630,304</u>	<u>1,522,565</u>	<u>(107,739)</u>
Total expenditures	<u>1,630,304</u>	<u>1,630,304</u>	<u>1,522,565</u>	<u>(107,739)</u>
Net Change in Fund Balance	-	-	(253,474)	(253,474)
Fund balance, July 1, 2013	<u>(1,535,799)</u>	<u>(1,535,799)</u>	<u>(1,535,799)</u>	<u>-</u>
Fund balance June 30, 2014	<u>\$ (1,535,799)</u>	<u>\$ (1,535,799)</u>	<u>\$ (1,789,273)</u>	<u>\$ (253,474)</u>

The budget should have been detailed to show projected debt service expenditures from the Arena Fund. All expenses were grouped as "Arena".

See accompanying notes.

CITY OF CORBIN, KENTUCKY

**REQUIRED SUPPLEMENTARY INFORMATION
PENSION TRUST FUND**

SCHEDULE OF FUNDING PROGRESS

June 30, 2014

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
2010	\$ 428,564	90%
2011	\$ 427,853	94%
2012	\$ 368,802	113%
2013	\$ 371,024	120%
2014	\$ 371,781	125%

Actuarial valuation date	July 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Amortization period open	20 years
Remaining amortization period	17 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, 2014

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, 2014 was amended during the year as allowed by law. 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, 2014, 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 October 14, 2014.

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 October 14, 2014

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 October 14, 2014. However, other 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
October 14, 2014

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, 2014, 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 October 14, 2014, 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,

Cloyd & Associates, PSC

Corbin, Kentucky
October 14, 2014

Comments and Recommendations
City of Corbin, Kentucky
June 30, 2014

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 when they are purchased. Also assets purchased with federal funds are required to be inventoried a least every two years.
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 (The Corbin City Commission). 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, by definition, also significant deficiencies.

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