

**CITY OF CORBIN  
CORBIN, KENTUCKY**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2015  
WITH  
REPORT OF INDEPENDENT AUDITORS**

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*Certified Public Accountants*

## **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, 2015, 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.



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**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, 2015. 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, 2015, 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, 2015, 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, budgetary comparison information, and pension 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



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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 15, 2015, 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 15, 2015  
Corbin, KY

## **CITY OF CORBIN, KENTUCKY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**Year ended June 30, 2015**

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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, 2015. 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 \$2,426,892 comprised of \$305,865 in restricted cash and \$2,121,027 in unrestricted cash. The prior year's cash balance was \$1,528,370 comprised of \$36,219 in restricted cash and \$1,492,151 in unrestricted cash.
- The City's combined net position decreased by \$76,550 due to operations and \$6,206,666 due to the implementation of Governmental Accounting Standards Board Statement number 68 which requires a government to recognize its share of overall pension liability.
- The general fund had approximately \$7.1 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 balance of approximately \$720,839 which represents approximately a 19% increase relative to the prior year. The Corbin Arena fund showed an overall decrease of \$273,560, which represents approximately a 15% decrease. The total overall increase for governmental funds was \$447,279 or approximately 22% between 2014 and 2015.
- The City's total long-term liabilities decreased by \$293,831, relative to 2014. Short term debt increased by \$260,692 during the year. The ending long-term debt balance was \$17,115,232 including the net pension obligation, net pension liability and accrued absences. The short-term debt balance at the end of the year was \$499,334.

#### **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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Year ended June 30, 2015**

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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.

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, 2015

### The City as a Whole

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

|                                     | Governmental Activities |                      | Total                |                      |
|-------------------------------------|-------------------------|----------------------|----------------------|----------------------|
|                                     | 2014                    | 2015                 | 2014                 | 2015                 |
| Current and other assets            | \$ 2,910,979            | \$ 4,128,740         | \$ 2,910,979         | \$ 4,128,740         |
| Capital assets, net of depreciation | 40,124,821              | 39,180,809           | 40,124,821           | 39,180,809           |
| <b>Total Assets</b>                 | <b>43,035,800</b>       | <b>43,309,549</b>    | <b>43,035,800</b>    | <b>43,309,549</b>    |
| Deferred outflows of resources      | 46,439                  | 43,454               | 46,439               | 43,454               |
| Short-term liabilities              | 1,535,739               | 2,312,792            | 1,535,739            | 2,312,792            |
| Other liabilities                   | 10,569,795              | 16,496,832           | 10,569,795           | 16,496,832           |
| <b>Total Liabilities</b>            | <b>12,105,534</b>       | <b>18,809,624</b>    | <b>12,105,534</b>    | <b>18,809,624</b>    |
| Deferred inflows of resources       | -                       | 655,000              | -                    | 655,000              |
| <b>Net assets</b>                   |                         |                      |                      |                      |
| Net investment in                   |                         |                      |                      |                      |
| capital assets                      | 30,048,164              | 23,397,912           | 30,048,164           | 23,397,912           |
| Restricted                          | 7,145                   | 45,917               | 7,145                | 45,917               |
| Unrestricted                        | 921,196                 | (4,745,540)          | 921,196              | (4,745,540)          |
| <b>Total Net Position</b>           | <b>\$ 30,976,505</b>    | <b>\$ 18,698,289</b> | <b>\$ 30,976,505</b> | <b>\$ 18,698,289</b> |

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

|  | Governmental Activities |                     | Total               |                     |
|--|-------------------------|---------------------|---------------------|---------------------|
|  | 2014                    | 2015                | 2014                | 2015                |
| <b>Revenues</b>                            |                         |                     |                     |                     |
| Program revenues                           |                         |                     |                     |                     |
| Charges for services                       | \$ 2,076,313            | \$ 1,943,893        | \$ 2,076,313        | \$ 1,943,893        |
| Operating Grants & contributions           | 567,006                 | 1,342,866           | 567,006             | 1,342,866           |
| Capital Grants & contributions             | 809,244                 | 56,850              | 809,244             | 56,850              |
| General revenues                           |                         |                     |                     |                     |
| Local taxes                                | 4,382,581               | 4,126,643           | 4,382,581           | 4,126,643           |
| Regulatory fees                            | 817,722                 | 852,782             | 817,722             | 852,782             |
| Licenses and permits                       | 247,720                 | 255,043             | 247,720             | 255,043             |
| Earnings on investments                    | 17,806                  | 6,073               | 17,806              | 6,073               |
| Other                                      | 69,786                  | 601,303             | 69,786              | 601,303             |
| <b>Total revenues</b>                      | <b>8,988,178</b>        | <b>9,185,453</b>    | <b>8,988,178</b>    | <b>9,185,453</b>    |
| <b>Expenses</b>                            |                         |                     |                     |                     |
| General government                         | 1,270,251               | 1,302,586           | 1,270,251           | 1,302,586           |
| Police department                          | 2,323,220               | 2,076,381           | 2,323,220           | 2,076,381           |
| Fire department                            | 1,273,499               | 1,291,482           | 1,273,499           | 1,291,482           |
| Public works                               | 1,877,675               | 1,720,130           | 1,877,675           | 1,720,130           |
| Recycling center                           | 372,172                 | 378,626             | 372,172             | 378,626             |
| Building inspector                         | 94,663                  | 109,784             | 94,663              | 109,784             |
| Parks and recreation                       | 536,633                 | 580,196             | 536,633             | 580,196             |
| Special projects                           | 71,798                  | 53,242              | 71,798              | 53,242              |
| Arena                                      | 1,467,021               | 1,263,561           | 1,467,021           | 1,263,561           |
| Downtown main street                       | 226,433                 | 258,165             | 226,433             | 258,165             |
| Interest on debt service                   | 322,930                 | 227,850             | 322,930             | 227,850             |
| <b>Total expenses</b>                      | <b>\$ 9,836,295</b>     | <b>\$ 9,262,003</b> | <b>\$ 9,836,295</b> | <b>\$ 9,262,003</b> |
| <b>Increase/(Decrease) in net position</b> | <b>\$ (848,117)</b>     | <b>\$ (76,550)</b>  | <b>\$ (848,117)</b> | <b>\$ (76,550)</b>  |

# CITY OF CORBIN, KENTUCKY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2015

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 2015 and 2013:

|  | 2014                | 2015              |
|--|---------------------|-------------------|
| <b>Revenues and other financing sources</b>        |                     |                   |
| Tax and related revenue                            | \$ 5,200,303        | \$ 5,330,394      |
| Licenses and permits                               | 247,720             | 255,043           |
| Fees for services                                  | 2,076,313           | 1,943,893         |
| Rent   | 168,217             | 179,158           |
| Investments  | 17,806              | 6,073             |
| Intergovernmental                                  | 1,208,033           | 1,399,716         |
| Other  | 69,786              | 71,177            |
| Debt issue   | -                   | 263,831           |
| <b>Total Revenue and other financing sources</b>   | <b>8,988,178</b>    | <b>9,449,285</b>  |
| <b>Expenditures and other financing uses</b>       |                     |                   |
| General government                                 | 932,509             | 920,376           |
| Police department                                  | 2,212,648           | 2,030,855         |
| Fire department                                    | 1,279,080           | 1,253,438         |
| Public works                                       | 1,830,111           | 1,886,653         |
| Recycling center                                   | 391,450             | 350,573           |
| Building inspection                                | 94,671              | 109,887           |
| Parks and recreation                               | 527,149             | 538,610           |
| Special projects                                   | 71,798              | 139,261           |
| Downtown main street                               | 240,823             | 240,257           |
| Arena  | 801,637             | 649,343           |
| Debt service                                       | 855,864             | 882,753           |
| <b>Total expenditures and other financing uses</b> | <b>9,237,740</b>    | <b>9,002,006</b>  |
| <b>Net change in fund balance</b>                  | <b>\$ (249,562)</b> | <b>\$ 447,279</b> |

### General Fund Revenue

The majority of revenue, net of debt, was derived from tax revenue (52% in 2015 and 51% in 2013). Fees for services made up 21% of revenue in 2015 and 22% in 2013. Interest income made up 0.22% of total revenues in 2015 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, 2015**

|   | Primary Government   |                      |
|---|----------------------|----------------------|
|   | Governmental         |                      |
|   | Activities           | Total                |
| <b>ASSETS</b>   |                      |                      |
| Cash and cash equivalents - unrestricted                        | \$ 2,121,027         | \$ 2,121,027         |
| Restricted cash and cash equivalents                            | 305,865              | 305,865              |
| Taxes receivable:   |                      |                      |
| Restaurant tax  | 309,848              | 309,848              |
| Insurance tax   | 327,673              | 327,673              |
| Occupational tax  | 358,492              | 358,492              |
| Regulatory fees receivable                                      | 75,069               | 75,069               |
| Other receivables (net of allowance for uncollectible accounts) | 244,715              | 244,715              |
| Prepaid expense   | 1,189                | 1,189                |
| Due from component units  | 232,386              | 232,386              |
| Investment in fixed assets, net                                 |                      |                      |
| Non-depreciable   | 2,704,046            | 2,704,046            |
| Depreciable   | 36,476,763           | 36,476,763           |
| <b>Total assets</b>   | <b>43,157,073</b>    | <b>43,157,073</b>    |
| <b>Deferred outflows of resources</b>                           |                      |                      |
| Deferred debt increase created by debt refundings               | 43,454               | 43,454               |
| Deferred pension contributions                                  | 808,910              | 808,910              |
| <b>Total deferred outflows of resources</b>                     | <b>852,364</b>       | <b>852,364</b>       |
| <b>LIABILITIES</b>  |                      |                      |
| Accounts payable  | 309,614              | 309,614              |
| Accrued expenses  | 123,378              | 123,378              |
| Unearned revenue  | 255,981              | 255,981              |
| Due to component units  | 309,848              | 309,848              |
| Short term loan payable   | 499,334              | 499,334              |
| Accrued interest  | 24,061               | 24,061               |
| Accrued compensated absences - current                          | 19,700               | 19,700               |
| Current portion of capital leases due                           | 88,180               | 88,180               |
| Current portion lease purchase agreements payable               | 530,220              | 530,220              |
| Net pension liability -County Employees Retirement System       | 6,341,000            | 6,341,000            |
| Net pension obligation - police and firemen's pension fund      | 892,508              | 892,508              |
| Long-term portion of capital leases                             | 239,300              | 239,300              |
| Long-term portion of lease purchase agreements payable          | 8,925,197            | 8,925,197            |
| Non-current portion of accrued compensated absences             | 98,827               | 98,827               |
| <b>Total liabilities</b>  | <b>18,657,148</b>    | <b>18,657,148</b>    |
| <b>Deferred inflow</b>  |                      |                      |
| Deferred pension inflow   | 655,000              | 655,000              |
| <b>NET POSITION</b>   |                      |                      |
| Net investment in capital assets                                | 29,397,912           | 29,397,912           |
| Restricted for:   |                      |                      |
| Operations  | 59,309               | 59,309               |
| Capital expenditures  | -                    | -                    |
| Unrestricted  | (4,759,932)          | (4,759,932)          |
| <b>Total net position</b>                                       | <b>\$ 24,697,289</b> | <b>\$ 24,697,289</b> |

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

CITY OF CORBIN, KENTUCKY  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2015

| FUNCTIONS/PROGRAMS                               | Program Revenues    |                                     |   |   | Primary Government                                 |                     |
|--|---------------------|-------------------------------------|---|---|--|---------------------|
|  | <u>Expenses</u>     | <u>Charges<br/>for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> | Net (Expense) Revenue and<br>Changes in Net Assets |                     |
|  |                     |                                     |   |   | <u>Governmental<br/>Activities</u>                 | <u>Total</u>        |
| <b>Governmental activities</b>                   |                     |                                     |   |   |  |                     |
| General Government                               | \$ 1,302,586        | \$ 3,585                            | \$ 167,592  | \$ -  | \$ (1,131,409)                                     | \$ (1,131,409)      |
| Police Department                                | 2,076,381           | 24,716                              | 76,311  | 5,000   | (1,970,354)  | (1,970,354)         |
| Fire Department                                  | 1,291,482           | -                                   | 74,273  | 5,000   | (1,212,209)  | (1,212,209)         |
| Public Works                                     | 1,720,130           | 1,447,812                           | 186,740   | -   | (85,578)   | (85,578)            |
| Recycling Center                                 | 378,626             | 73,005                              | -   | 46,850  | (258,771)  | (258,771)           |
| Building Inspection                              | 109,784             | 13,820                              | -   | -   | (95,964)   | (95,964)            |
| Parks and Recreation                             | 580,196             | 54,162                              | -   | -   | (526,034)  | (526,034)           |
| Special Projects                                 | 53,242              | -                                   | -   | -   | (53,242)   | (53,242)            |
| Arena expenditures                               | 1,263,561           | 326,793                             | 837,950   | -   | (98,818)   | (98,818)            |
| Downtown Main Street                             | 258,165             | -                                   | -   | -   | (258,165)  | (258,165)           |
| Interest on Long-Term Debt                       | 227,850             | -                                   | -   | -   | (227,850)  | (227,850)           |
| <b>Total primary government</b>                  | <b>\$ 9,262,003</b> | <b>\$ 1,943,893</b>                 | <b>\$ 1,342,866</b>                               | <b>\$ 56,850</b>                                | <b>(5,918,394)</b>                                 | <b>(5,918,394)</b>  |
| <b>General revenues</b>                          |                     |                                     |   |   |  |                     |
| Taxes:   |                     |                                     |   |   |  |                     |
| Property   |                     |                                     |   |   | 1,007,779  | 1,007,779           |
| Motor vehicle                                    |                     |                                     |   |   | 99,460   | 99,460              |
| Occupational                                     |                     |                                     |   |   | 1,524,582  | 1,524,582           |
| Municipal insurance                              |                     |                                     |   |   | 1,409,068  | 1,409,068           |
| Other  |                     |                                     |   |   | 85,754   | 85,754              |
| Alcohol regulatory fees                          |                     |                                     |   |   | 852,782  | 852,782             |
| Municipal fees in lieu<br>of taxes               |                     |                                     |   |   | 350,968  | 350,968             |
| Licenses and permits                             |                     |                                     |   |   | 255,043  | 255,043             |
| Rent   |                     |                                     |   |   | 179,158  | 179,158             |
| Earnings on investments                          |                     |                                     |   |   | 6,073  | 6,073               |
| Other  |                     |                                     |   |   | 71,177   | 71,177              |
| <b>Total general revenues</b>                    |                     |                                     |   |   | <b>5,841,844</b>                                   | <b>5,841,844</b>    |
| <b>Restatement of net position</b>               |                     |                                     |   |   | <b>(6,202,666)</b>                                 | <b>(6,202,666)</b>  |
| <b>Net position as of July 1, 2014</b>           |                     |                                     |   |   | <b>30,976,505</b>                                  | <b>30,976,505</b>   |
| <b>Net position as of July 1, 2014, restated</b> |                     |                                     |   |   | <b>24,773,839</b>                                  | <b>24,773,839</b>   |
| <b>Change in net position</b>                    |                     |                                     |   |   | <b>(76,550)</b>                                    | <b>(76,550)</b>     |
| <b>Net position as of June 30, 2015</b>          |                     |                                     |   |   | <b>\$24,697,289</b>                                | <b>\$24,697,289</b> |

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

**CITY OF CORBIN, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2015**

|  | General<br>Fund     | Corbin<br>Arena<br>Fund | ABC<br>FUND       | Total<br>Governmental<br>Funds |
|--|---------------------|-------------------------|-------------------|--------------------------------|
| <b>ASSETS</b>  |                     |                         |                   |                                |
| Cash and cash equivalents - unrestricted                           | \$ 1,973,653        | \$ 69,967               | \$ 77,407         | \$ 2,121,027                   |
| Restricted cash and cash equivalents                               | 305,865             | -                       | -                 | 305,865                        |
| Taxes receivable   |                     |                         |                   |                                |
| Restaurant tax   | 309,848             | -                       | -                 | 309,848                        |
| Insurance tax  | 327,673             | -                       | -                 | 327,673                        |
| Occupational tax   | 358,492             | -                       | -                 | 358,492                        |
| Regulatory fees receivable   | -                   | -                       | 75,069            | 75,069                         |
| Other receivables (net of allowance for<br>uncollectible accounts) | 241,715             | 3,000                   | -                 | 244,715                        |
| Prepaid expenses   | 1,189               | -                       | -                 | 1,189                          |
| Due from Arena Fund  | 2,226,751           | -                       | -                 | 2,226,751                      |
| Due from ABC Fund  | 152,476             | -                       | -                 | 152,476                        |
| Due from component units   | -                   | 232,386                 | -                 | 232,386                        |
| <b>Total assets</b>  | <b>\$ 5,897,662</b> | <b>\$ 305,353</b>       | <b>\$ 152,476</b> | <b>\$ 6,355,491</b>            |
| <b>LIABILITIES AND FUND BALANCES</b>                               |                     |                         |                   |                                |
| <b>Liabilities</b>   |                     |                         |                   |                                |
| Accounts payable   | \$ 174,040          | \$ 135,574              | \$ -              | \$ 309,614                     |
| Accrued expenses   | 117,517             | 5,861                   | -                 | 123,378                        |
| Unearned revenue   | 255,981             | -                       | -                 | 255,981                        |
| Short-term obligations payable                                     | 499,334             | -                       | -                 | 499,334                        |
| Current portion of<br>accrued compensated absences                 | 19,700              | -                       | -                 | 19,700                         |
| Due to General Fund  | -                   | 2,226,751               | 152,476           | 2,379,227                      |
| Due to Component Units   | 309,848             | -                       | -                 | 309,848                        |
| <b>Total liabilities</b>   | <b>1,376,420</b>    | <b>2,368,186</b>        | <b>152,476</b>    | <b>3,897,082</b>               |
| <b>Fund balances</b>   |                     |                         |                   |                                |
| Nonspendable   | 1,189               | -                       | -                 | 1,189                          |
| Restricted   | 59,309              | -                       | -                 | 59,309                         |
| Committed  | 21,404              | -                       | -                 | 21,404                         |
| Assigned   | -                   | -                       | -                 | -                              |
| Unassigned   | 4,439,340           | (2,062,833)             | -                 | 2,376,507                      |
| <b>Total fund balances</b>   | <b>4,521,242</b>    | <b>(2,062,833)</b>      | <b>-</b>          | <b>2,458,409</b>               |
| <b>Total liabilities and fund balances</b>                         | <b>\$ 5,897,662</b> | <b>\$ 305,353</b>       | <b>\$ 152,476</b> | <b>\$ 6,355,491</b>            |

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 POSITION  
June 30, 2015

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|  |                      |
|--|----------------------|
| Total fund balances - governmental funds   | \$ 2,458,409         |
| 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:                                       | 39,180,809           |
| 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 position.                                  | 43,454               |
| Deferred pension contributions are recognized in the fund statements as reductions of current financial resources but are capitalized in the statement of net assets.  | 808,910              |
| 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.             | (9,782,897)          |
| The net pension liability KERS 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 position.                               | (6,341,000)          |
| The net pension obligation police and firemen's pension fund 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 position. | (892,508)            |
| Deferred changes in pension plans assumptions KERS are not recognized in the fund statements as but are recognized in the statement of net position.   | (655,000)            |
| fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.  | (98,827)             |
| 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 position.   | (24,061)             |
| Total net position - governmental activities   | <u>\$ 24,697,289</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, 2015

|   | General<br>Fund     | Corbin Arena<br>Fund  | ABC<br>Fund      | Total<br>Governmental<br>Funds |
|---|---------------------|-----------------------|------------------|--------------------------------|
| <b>Revenues</b>   |                     |                       |                  |                                |
| Taxes:  |                     |                       |                  |                                |
| Property  | \$ 1,007,779        | \$ -                  | \$ -             | \$ 1,007,779                   |
| Motor vehicle   | 99,460              | -                     | -                | 99,460                         |
| Occupational  | 1,524,582           | -                     | -                | 1,524,582                      |
| Municipal insurance                                       | 1,409,068           | -                     | -                | 1,409,068                      |
| Other   | 85,754              | -                     | -                | 85,754                         |
| Alcohol regulatory fees and licenses                      | -                   | -                     | 852,783          | 852,783                        |
| Revenue in lieu of tax                                    | 350,968             | -                     | -                | 350,968                        |
| Licenses and permits                                      | 255,043             | -                     | -                | 255,043                        |
| Fees for services   | 1,617,100           | 326,793               | -                | 1,943,893                      |
| Rent  | 179,158             | -                     | -                | 179,158                        |
| Interest  | 6,006               | 49                    | 18               | 6,073                          |
| Intergovernmental revenues                                | 561,766             | 837,950               | -                | 1,399,716                      |
| Other   | 71,177              | -                     | -                | 71,177                         |
| Total revenues  | <u>7,167,861</u>    | <u>1,164,792</u>      | <u>852,801</u>   | <u>9,185,454</u>               |
| <b>Expenditures</b>                                       |                     |                       |                  |                                |
| General government  | 920,376             | -                     | -                | 920,376                        |
| Police department   | 2,030,855           | -                     | -                | 2,030,855                      |
| Fire department   | 1,253,438           | -                     | -                | 1,253,438                      |
| Public works  | 1,886,653           | -                     | -                | 1,886,653                      |
| Recycling center  | 350,573             | -                     | -                | 350,573                        |
| Building inspection                                       | 109,887             | -                     | -                | 109,887                        |
| Parks and Recreation                                      | 538,610             | -                     | -                | 538,610                        |
| Special projects  | 139,261             | -                     | -                | 139,261                        |
| Main street   | 240,257             | -                     | -                | 240,257                        |
| Arena expenditures  | -                   | 649,343               | -                | 649,343                        |
| Debt Service  | 93,744              | 789,009               | -                | 882,753                        |
| Total expenditures  | <u>7,563,654</u>    | <u>1,438,352</u>      | <u>-</u>         | <u>9,002,006</u>               |
| Excess (deficit) of revenues<br>over (under) expenditures | (395,793)           | (273,560)             | 852,801          | 183,448                        |
| <b>Other financing sources (uses)</b>                     |                     |                       |                  |                                |
| Transfer in/(out)   | 852,801             | -                     | (852,801)        | -                              |
| Proceeds from debt  | 263,831             | -                     | -                | 263,831                        |
| Total other financing sources (uses)                      | <u>1,116,632</u>    | <u>-</u>              | <u>(852,801)</u> | <u>263,831</u>                 |
| Net change in fund balance                                | 720,839             | (273,560)             | -                | 447,279                        |
| Fund balances, July 1, 2014                               | <u>3,800,403</u>    | <u>(1,789,273)</u>    | <u>-</u>         | <u>2,011,130</u>               |
| Fund balances, June 30, 2015                              | <u>\$ 4,521,242</u> | <u>\$ (2,062,833)</u> | <u>\$ -</u>      | <u>\$ 2,458,409</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, 2015

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Net change in total fund balances - governmental funds \$ 447,279

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. (944,011)

Amortization of deferred outflows is not presented in the fund financial statements but is a reduction of outflows in the statement of net position. (2,985)

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. 557,591

Proceeds from debt are shown as other financing sources in the fund statements but are increases in liabilities in the statement of net position. (263,831)

Deferred pension contributions CERS are expensed in the fund statements but are deferred in statement of activities. 808,910

Calculated pension expense is presented in the statement of activities but does not affect the fund statements (793,334)

The decrease in net pension obligation police and firemen's pension fund 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. 100,297

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 13,534

Change in net position - governmental activities \$ (76,550)

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



**CITY OF CORBIN, KENTUCKY**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2015**

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|                           | Agency<br>Funds | Police and Firemen's<br>Pension<br>Funds |
|---------------------------|-----------------|--|
| <b>ASSETS</b>             |                 |  |
| Cash and cash equivalents | \$ -            | \$ 435,619                               |
| Investments               | -               | 487,887                                  |
| Receivables               |                 |  |
| Interest                  | <u>-</u>        | <u>927</u>                               |
| <b>Total Assets</b>       | <u>-</u>        | <u>924,433</u>                           |
| <b>LIABILITIES</b>        |                 |  |
| Due to agencies           | -               | -  |
| <b>Total Liabilities</b>  | <u>-</u>        | <u>-</u>                                 |
| <b>NET POSITION</b>       |                 |  |
| Held for pension benefits | <u>\$ -</u>     | <u>\$ 924,433</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**

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**ADDITIONS**

|                |                |
|----------------|----------------|
| Tax revenue    | \$ 467,425     |
| Interest       | 5,176          |
| Other          | -              |
| Total revenues | <u>472,601</u> |

**DEDUCTIONS**

|                     |                |
|---------------------|----------------|
| Benefits            | 390,570        |
| Plan administration | -              |
| Total expenditures  | <u>390,570</u> |

|                                   |        |
|-----------------------------------|--------|
| Increase/(Decrease) in net assets | 82,031 |
|-----------------------------------|--------|

|                          |                |
|--------------------------|----------------|
| Net Assets, July 1, 2014 | <u>842,402</u> |
|--------------------------|----------------|

|                              |                   |
|------------------------------|-------------------|
| Net Position , June 30, 2015 | <u>\$ 924,433</u> |
|------------------------------|-------------------|

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

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2015

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The financial reporting entity

The City of Corbin, Kentucky is a home rule city under the laws of the Commonwealth of Kentucky 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, 2015.

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, the Corbin City Hall Public Corporation and the City have a financial benefit and burden relationship and management of the City has operational responsibility for the activities of the Corbin City Hall Public Corporation. Although it is legally separate from the City, it is reported as if it were part of the primary government. 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 City School City, 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 operation of the commission is the exclusive responsibility of the commission's management and the City has no authority to interfere with these operations or choose management. 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 City**

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

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

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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, 2015

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**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 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.

ABC Fund – The ABC Fund accounts for alcohol regulatory fees and licenses revenue. All revenue is transferred to the City's general fund as management determines the revenue has been properly expensed.

Additionally, the City reports the following fund types:

Police and Firemen's Pension Fund – The pension funds account for assets held on behalf of former City employees.

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

**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 liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have accumulated 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, 2015

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**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, 2015, 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, 2015

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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.

# **CITY OF CORBIN, KENTUCKY**

## **NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**

Year ended June 30, 2015

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **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. The amount is shown as a deferred outflow and amounted to \$43,454 at June 30, 2015.

#### **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.



## CITY OF CORBIN, KENTUCKY

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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.

##### 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.

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**O. Budgets and Budgetary accounting (continued)**

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, 2015 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, Arena Fund, and ABC 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.

**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, 2015.

**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**

Year ended June 30, 2015

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**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, 2015, the carrying amount of the City's cash and cash equivalents was \$2,426,892 which includes cash held by City Hall Public Corporation. The bank balance was \$2,763,847. The City also held \$923,506 for the Corbin Police and Firemen's Pension Fund. Of the total cash balance, \$2,670,831, excluding petty cash of \$2,000 was covered by federal depository insurance with the remaining balance and/or 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, \$306,848 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, 2015, 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, 2015

**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, 2015 is \$499,334. The City retired a short term note during the year to Cumberland Valley Bank in the amount of \$25,000. The total short term borrowings at June 30, 2015 are outlined below:

| <u>Balance</u><br><u>July 1, 2014</u> | <u>Additions</u>  | <u>Deductions</u> | <u>Balance</u><br><u>June 30, 2015</u> |
|---------------------------------------|-------------------|-------------------|--|
| <u>\$ 238,642</u>                     | <u>\$ 285,692</u> | <u>\$ 25,000</u>  | <u>\$ 499,334</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, 2015 was as follows:

|   | <u>Balance</u><br><u>June 30, 2014</u> | <u>Additions</u>    | <u>Dispositions</u> | <u>Balance</u><br><u>June 30, 2015</u> |
|---|--|---------------------|---------------------|--|
| <b>Governmental activities</b>              |  |                     |                     |  |
| Land  | \$ 2,618,027                           | \$ -                | \$ -                | \$ 2,618,027                           |
| Buildings and improvements                  | 47,705,550                             | -                   | -                   | 47,705,550                             |
| Improvements                                |  |                     |                     |  |
| other than buildings                        | 3,578,787                              | -                   | -                   | 3,578,787                              |
| Equipment                                   | 6,279,610                              | 357,458             | -                   | 6,637,068                              |
| Other                                       | 113,803                                | -                   | -                   | 113,803                                |
| Construction in progress                    | -                                      | 86,019              | -                   | 86,019                                 |
|   | <u>60,295,777</u>                      | <u>443,477</u>      | <u>-</u>            | <u>60,739,254</u>                      |
| Less: Accumulated depreciation              |  |                     |                     |  |
| Buildings and improvements                  | 13,028,631                             | 899,766             | -                   | 13,928,397                             |
| Improvements                                |  |                     |                     |  |
| other than buildings                        | 1,380,577                              | 88,061              | -                   | 1,468,638                              |
| Equipment                                   | 5,687,415                              | 393,972             | -                   | 6,081,387                              |
| Other                                       | 74,333                                 | 5,690               | -                   | 80,023                                 |
| Total accumulated depreciation              | <u>20,170,956</u>                      | <u>1,387,489</u>    | <u>-</u>            | <u>21,558,445</u>                      |
| Governmental activities, net capital assets | <u>\$ 40,124,821</u>                   | <u>\$ (944,012)</u> | <u>\$ -</u>         | <u>\$ 39,180,809</u>                   |

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

### NOTE 5 – CAPITAL ASSETS (continued)

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

|                         |                     |
|-------------------------|---------------------|
| General government      | \$ 397,714          |
| Police department       | 104,863             |
| Fire department         | 49,355              |
| Public works            | 86,528              |
| Corbin recycling center | 34,431              |
| Parks and recreation    | 81,554              |
| Building inspector      | 54                  |
| Downtown main street    | 18,020              |
| Arena                   | 614,970             |
|                         | <u>\$ 1,387,489</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, 2015 are as follows:

| Year ending<br>June 30, | Principal<br>Payment | Interest<br>and Fees | Total               |
|-------------------------|----------------------|----------------------|---------------------|
| 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>\$ 5,359,583</u>  | <u>\$ 1,530,026</u>  | <u>\$ 6,889,609</u> |

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

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 effective interest rate is 2.50% and 4.25%. Future principal and anticipated interest rates as of June 30, 2015 are:

| Year ending<br><u>June 30,</u> | Principal<br><u>Payment</u> | Interest<br><u>and Fees</u> | <u>Total</u>        |
|--------------------------------|-----------------------------|-----------------------------|---------------------|
| 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                           | <u>163,333</u>              | <u>7,613</u>                | <u>170,946</u>      |
|                                | <u>\$ 4,095,834</u>         | <u>\$ 2,227,861</u>         | <u>\$ 6,323,695</u> |

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

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, 2015 was \$10,367. The City will pay monthly payments of \$1,650 from the general fund over a period of remaining as June 30, 2015 follows:

| Fiscal Year<br>Ended June 30,           | Principal |
|---|-----------|
| 2016                                    | \$ 10,367 |
| Present value of minimum lease payments | \$ 10,367 |

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 under 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, 2015 was \$62,475. Minimum required rental payments under this capital lease, together with the net present value of the minimum lease payments as of June 30, 2015 are:

| Fiscal Year<br>Ended June 30,           | Amount    |
|---|-----------|
| 2016                                    | \$ 26,861 |
| 2017                                    | 26,861    |
| 2018                                    | 11,217    |
|   | 64,939    |
| Less amount representing interest       | 2,464     |
| Present value of minimum lease payments | \$ 62,475 |

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

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### NOTE 6 – LONG-TERM LIABILITIES (Continued)

#### Street Sweeper – Branch Banking and Trust

The City entered into a long-term non-cancelable lease with the Branch Banking and Trust Company in the principal amount of \$231,476 during the fiscal year ended June 30, 2015 for the purchase of a street sweeper. The lease qualifies as a capital lease for accounting purposes as defined under 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 annual payments including an amount representing interest of 2.310% to Branch Banking and Trust Company, with the final payment due on August 6, 2020. The payments will be made through the City's general fund. The present value of lease payments at June 30, 2015 was \$231,476. Minimum required rental payments under this capital lease, together with the net present value of the minimum lease payments as of June 30, 2015 are:

| Fiscal Year<br>Ended June 30,           | Amount           |
|---|------------------|
| 2016                                    | \$ 41,758        |
| 2017                                    | 41,758           |
| 2018                                    | 41,758           |
| 2019                                    | 41,758           |
| 2020                                    | 41,758           |
| 2021                                    | 41,756           |
|   | <hr/> 250,546    |
| Less amount representing interest       | 19,070           |
| Present value of minimum lease payments | <hr/> \$ 231,476 |



# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

### NOTE 6 – LONG-TERM LIABILITIES (Continued)

#### Recreation Equipment – Kansas State Bank

The City entered into a long-term non-cancelable lease with the Kansas State Bank and First Pacific Funding in the principal amount of \$32,355 during the fiscal year ended June 30, 2015 for the purchase of recreation equipment. The lease qualifies as a capital lease for accounting purposes as defined under 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 annual payments including an amount representing interest of 9.28% to Kansas State Bank, with the final payment due on June 10, 2018. An initial payment of \$9,194 was made at closing with four payments remaining. The payments will be made through the City's general fund. The present value of lease payments at June 30, 2015 was \$23,160. Minimum required rental payments under this capital lease, together with the net present value of the minimum lease payments as of June 30, 2015 are:

| Fiscal Year<br>Ended June 30,           | Amount           |
|---|------------------|
| 2016                                    | \$ 9,194         |
| 2017                                    | 9,194            |
| 2018                                    | 9,194            |
|   | <u>27,582</u>    |
| Less amount representing interest       | <u>4,422</u>     |
| Present value of minimum lease payments | <u>\$ 23,160</u> |

Changes in long-term liability for the year ended June 30, 2015 were as follows:

|  | Balance<br>June 30, 2014 | Additions           | Deductions        | Balance<br>June 30, 2015 |
|--|--------------------------|---------------------|-------------------|--------------------------|
| KLC Refinancing Lease Series 2012                | \$ 4,222,917             | \$ -                | \$ 127,083        | \$ 4,095,834             |
| KLC Refinancing Lease Series 2010                | 5,735,833                | -                   | 376,250           | 5,359,583                |
| Caterpillar Financial Service                    | 30,169                   | -                   | 19,802            | 10,367                   |
| TCF Bank   | 86,834                   | -                   | 24,359            | 62,475                   |
| Kubota Credit                                    | 894                      | -                   | 894               | -                        |
| Kansas State Bank - Recreation                   | -                        | 32,355              | 9,194             | 23,161                   |
| Branch Banking and Trust - Street Sweeper        | 231,476                  | -                   | -                 | 231,476                  |
| Net pension liability County Employer Retirement | -                        | 6,341,000           | -                 | 6,341,000                |
| Net pension obligation police and firemen's fund | 992,805                  | -                   | 100,297           | 892,508                  |
| Accrued absences                                 | 132,062                  | 21,402              | -                 | 153,464                  |
|  | <u>\$ 11,432,990</u>     | <u>\$ 6,394,757</u> | <u>\$ 657,879</u> | <u>\$ 17,169,868</u>     |

Capital assets under capital lease at June 30, 2015 consist of garbage truck, a street sweeper, and recreation equipment. 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, 2015

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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 City participates in both the hazardous and non-hazardous portion of the plan. The City also maintains the Police and Firemen's Pension Fund, which is closed to new participants.

**General information about the County Employees Retirement System Non-Hazardous and Hazardous duty employees ("CERS")**

Plan description—Employees covered by CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS -- CONTINUED

Year ended June 30, 2015

### NOTE 7 -- PENSION PLANS (continued)

#### A. General Government Employees (continued)

##### Non-hazardous

|                              |                       |   |
|------------------------------|-----------------------|---|
| Tier 1                       | Participation date    | Before September 1, 2008                              |
|                              | Unreduced retirement  | 27 years service or 65 years old                      |
|                              | Reduced retirement    | At least 5 years service and 55 years old             |
| Tier 2                       |                       | At least 25 years service and any age                 |
|                              | Participation date    | September 1, 2008 - December 31, 2013                 |
|                              | Unreduced retirement  | At least 5 years service and 65 years old             |
| Tier 3                       |                       | Or age 57+ and sum of service years plus age equal 87 |
|                              | Reduced retirement    | At least 10 years service and 60 years old            |
|                              | Participation date    | After December 31, 2013                               |
| Tier 3                       | Unreduced retirement  | At least 5 years service and 65 years old             |
|                              |                       | Or age 57+ and sum of service years plus age equal 87 |
|                              | Reduced retirement    | Not available   |
| <u>Required contribution</u> |                       |   |
| Tier 1                       | 5%                    |   |
| Tier 2                       | 5% + 1% for insurance |   |
| Tier 3                       | 5% + 1% for insurance |   |

##### Hazardous

|                              |                       |  |
|------------------------------|-----------------------|--|
| Tier 1                       | Participation date    | Before September 1, 2008                                   |
|                              | Unreduced retirement  | 20 years service credit                                    |
|                              | Reduced retirement    | At least 15 years service credit and 50 years old          |
| Tier 2                       | Participation date    | September 1, 2008 - December 31, 2013                      |
|                              | Unreduced retirement  | 25 years service   |
|                              |                       | Or age 60 and at least 60 months of service credit         |
| Tier 3                       | Reduced retirement    | Age 50 or older with at least 180 months of service credit |
|                              | Participation date    | After December 31, 2013                                    |
|                              | Unreduced retirement  | 25 years service   |
| Tier 3                       |                       | Or age 60 and at least 60 months of service credit         |
|                              | Reduced retirement    | Not available  |
| <u>Required contribution</u> |                       |  |
| Tier 1                       | 8%                    |  |
| Tier 2                       | 8% + 1% for insurance |  |
| Tier 3                       | 8% + 1% for insurance |  |

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

### NOTE 7 – PENSION PLANS (Continued)

#### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the City as its proportionate share of the net pension liability, and the total portion of the net pension liability that was associated with the City were as follows:

|   |    |                  |
|---|----|------------------|
| City's proportionate share of the CERS net pension liability non- hazardous | \$ | 2,355,000        |
| City's proportionate share of the CERS net pension liability hazardous      |    | <u>3,986,000</u> |
|   | \$ | <u>6,341,000</u> |

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the City's proportion was 0.072590% of non-hazardous and 0.331687% pf hazardous.

For the year ended June 30, 2015, the City recognized pension expense of \$803,334 related to CERS hazardous and non-hazardous. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience  | \$ -                                 | \$ -                                |
| Changes of assumptions  | -                                    | -                                   |
| Net difference between projected and actual earnings on pension plan investments                              | -                                    | 655,000                             |
| Changes in proportion and differences between District contributions and proportionate share of contributions | -                                    | -                                   |
| City contributions subsequent to the measurement date   | <u>808,910</u>                       | <u>-</u>                            |
| Total   | <u>\$ 808,910</u>                    | <u>\$ 655,000</u>                   |

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

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### NOTE 7 – PENSION PLANS (Continued)

The \$808,910 is classified as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows: (\$655,000/5)

|      |    |         |
|------|----|---------|
| 2016 | \$ | 131,000 |
| 2017 | \$ | 131,000 |
| 2018 | \$ | 131,000 |
| 2019 | \$ | 131,000 |
| 2020 | \$ | 131,000 |

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|   | CERS  |
|---|-------|
| Inflation   | 3.50% |
| Projected salary increases  | 4.50% |
| Investment rate of return, net of<br>investment expense & inflation | 7.75% |

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

## CITY OF CORBIN, KENTUCKY

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

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#### NOTE 7 – PENSION PLANS (Continued)

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the City, calculated using the discount rates selected by each pension system, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (I calculated the amounts in this schedule:

|  | <u>1% Decrease</u>    | <u>Current<br/>Discount Rate</u> | <u>1% Increase</u>    |
|--|-----------------------|----------------------------------|-----------------------|
| CERS Non-hazardous<br>City's proportionate share<br>of net pension liability | 6.75%<br>\$ 3,099,145 | 7.75%<br>\$ 2,355,000            | 8.75%<br>\$ 1,697,706 |
| CERS Hazardous<br>City's proportionate share<br>of net pension liability     | 6.75%<br>\$ 5,214,710 | 7.75%<br>\$ 3,986,000            | 8.75%<br>\$ 2,943,274 |

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS.

#### 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). Management has determined that the plan is not held in a trust and does not have the characteristics of a trust and therefore will still be accounted for under GASB 27. 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 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.

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

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### NOTE 7 – PENSION PLANS (Continued)

#### B. Police and Fireman's Pension Fund (Continued)

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 Fund. Two investments represented more than 5% of the net assets available for benefits. Long term certificates of deposit in the amounts of \$101,772 and \$386,115 represented 11.01% and 41.76% of total holdings respectively.

The remaining assets are held in an interest bearing checking account and interest receivable. The checking account represents 47.12% of total holdings. The cost of administering the plan is financed by the Pension 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, 2015 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 accounts.

The City management has determined the Plan's assets are not held in a trust and do not meet the criteria for GASB 68 presentation and are presented in accordance with GASB 24.

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           | \$               | 372,303 |
| Contributions made            | \$               | 472,600 |
| Actuarial valuation date      | July 1, 2011     |         |
| Actuarial cost method         | Entry age normal |         |
| Amortization method           | Level dollar     |         |
| Amortization period open      | 20 years         |         |
| Remaining amortization period | 16 years         |         |
| Asset valuation method        | Market           |         |
| Actuarial assumptions         |                  |         |
| Investment rate of return     | 4%               |         |
| Projected salary increase     | N/A              |         |

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2015

### NOTE 7 – PENSION PLANS (Continued)

#### B. Police and Fireman's Pension Fund (Continued)

##### CITY THREE YEAR TREND

| Year Ended | Annual Pension Cost | Percentage of APC Contributed | Net Pension Obligation (Benefit) |
|------------|---------------------|-------------------------------|----------------------------------|
| 6/30/2013  | \$ 371,024          | 120%                          | \$ 1,082,717                     |
| 6/30/2014  | \$ 371,781          | 125%                          | \$ 992,805                       |
| 6/30/2014  | \$ 372,303          | 126%                          | \$ 892,508                       |

##### 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          | (3,596)    |
| Adjustment to annual required contribution  | 6,363      |
| Annual pension cost                         | 372,303    |
| Contributions made                          | (472,600)  |
| Increase in net pension obligation          | (100,297)  |
| Net pension obligation at beginning of year | 992,805    |
| Net pension obligation at end of year       | \$ 892,508 |

### 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 \$179,158 for the year ended June 30, 2015.

### 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 \$183,073.

### 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 \$64,740.



**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**

Year ended June 30, 2015

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**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, 2015, the City of Corbin had \$1,189 in nonspendable fund balances representing prepaid insurance in the same amount.

**NOTE – 14 RESTRICTED FUND BALANCE**

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 fund balances not otherwise classified as restricted, committed, or assigned are shown as unrestricted. Restricted assets included \$14,581 in police forfeiture funds, \$13,898 in LGEA and MARF cash and \$11,355, and \$19,475, in receivables LGEA and MARF respectively.

**NOTE – 15 COMMITTED FUND BALANCE**

Committed net assets are those with constraints placed on their use by the governing body of the City. Committed net assets included \$16,060 set aside in the Tourism Lighting Account, and \$5,344 in the Police Special Operations Account.

## **CITY OF CORBIN, KENTUCKY**

### **NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**

**Year ended June 30, 2015**

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#### **NOTE - 16 CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES**

Effective July 1, 2014, the City was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the City, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the City only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$6,202,666 reduction in beginning net position on the Statement of Activities and an increase of \$808,910 of deferred outflows of resources – City contributions subsequent to the measurement date.

#### **NOTE – 17 ALCOHOL REGULATORY FEES**

The City recognized approximately \$852,801 in alcohol regulatory and license fee revenue during the year ended June 30, 2015. 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 October 15, 2015, the date which the financial states were available to be issued. Management has noted no issues that affect the current financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## CITY OF CORBIN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 Year Ended June 30, 2015

|                               | General Fund        |                     |                     |                        |
|-------------------------------|---------------------|---------------------|---------------------|------------------------|
|                               | Original<br>Budget  | Final<br>Budget     | Actual              | Over (Under)<br>Budget |
| REVENUES                      | <u>\$ 8,418,100</u> | <u>\$ 8,760,100</u> | <u>\$ 7,167,861</u> | <u>\$ (1,592,239)</u>  |
| EXPENDITURES                  |                     |                     |                     |                        |
| General government            | 1,034,591           | 1,034,591           | 920,376             | (114,215)              |
| Police department             | 2,187,564           | 2,187,564           | 2,030,855           | (156,709)              |
| Fire department               | 1,310,500           | 1,310,500           | 1,253,438           | (57,062)               |
| Public works                  | 2,077,300           | 2,077,300           | 1,886,653           | (190,647)              |
| Recycling center              | 403,030             | 403,030             | 350,573             | (52,457)               |
| Building inspection           | 125,850             | 125,850             | 109,887             | (15,963)               |
| Parks and recreation          | 690,215             | 690,215             | 538,610             | (151,605)              |
| Special projects              | 72,450              | 414,450             | 139,261             | (275,189)              |
| Downtown main street          | 260,855             | 260,855             | 240,257             | (20,598)               |
| Arena                         | 162,000             | 162,000             | -                   | (162,000)              |
| Total expenditures            | <u>8,324,355</u>    | <u>8,666,355</u>    | <u>7,469,910</u>    | <u>(1,196,445)</u>     |
| OTHER FINANCING SOURCES       |                     |                     |                     |                        |
| Transfers in                  | -                   | -                   | 852,801             | \$ 852,801             |
| Proceeds from debt            | -                   | -                   | 263,831             | 263,831                |
| Total other financing sources | <u>-</u>            | <u>-</u>            | <u>1,116,632</u>    | <u>1,116,632</u>       |
| OTHER FINANCING USES          |                     |                     |                     |                        |
| Bonded debt service           | <u>(93,745)</u>     | <u>(93,745)</u>     | <u>(93,744)</u>     | <u>(1)</u>             |
| Total other financing sources | <u>(93,745)</u>     | <u>(93,745)</u>     | <u>(93,744)</u>     | <u>(1)</u>             |
| Net Change in Fund Balance    | -                   | -                   | 720,839             | 720,839                |
| Fund balance, July 1, 2014    | <u>3,800,403</u>    | <u>3,800,403</u>    | <u>3,800,403</u>    | <u>-</u>               |
| Fund balance June 30, 2015    | <u>\$ 3,800,403</u> | <u>\$ 3,800,403</u> | <u>\$ 4,521,242</u> | <u>\$ 720,839</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, 2015

|                            | Arena Fund            |                       |                       |                        |
|----------------------------|-----------------------|-----------------------|-----------------------|------------------------|
|                            | Original<br>Budget    | Final<br>Budget       | Actual                | Over (Under)<br>Budget |
| REVENUES                   | \$ 1,686,585          | \$ 1,686,585          | \$ 1,164,792          | \$ (521,793)           |
| EXPENDITURES               |                       |                       |                       |                        |
| Arena                      | <u>1,686,585</u>      | <u>1,686,585</u>      | <u>1,438,352</u>      | <u>(248,233)</u>       |
| Total expenditures         | <u>1,686,585</u>      | <u>1,686,585</u>      | <u>1,438,352</u>      | <u>(248,233)</u>       |
| Net Change in Fund Balance | -                     | -                     | (273,560)             | (273,560)              |
| Fund balance, July 1, 2014 | <u>(1,789,273)</u>    | <u>(1,789,273)</u>    | <u>(1,789,273)</u>    | <u>-</u>               |
| Fund balance June 30, 2015 | <u>\$ (1,789,273)</u> | <u>\$ (1,789,273)</u> | <u>\$ (2,062,833)</u> | <u>\$ (273,560)</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, 2015

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Annual<br>Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered Payroll<br>[(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<br>Year | Annual<br>Pension<br>Cost | Percentage<br>Contributed |
|----------------|---------------------------|---------------------------|
| 2010           | \$ 428,564                | 90%                       |
| 2011           | \$ 427,853                | 94%                       |
| 2012           | \$ 368,802                | 113%                      |
| 2013           | \$ 371,024                | 120%                      |
| 2014           | \$ 371,781                | 125%                      |
| 2015           | \$ 372,703                | 127%                      |

|                               |                  |
|-------------------------------|------------------|
| Actuarial valuation date      | July 1, 2011     |
| Actuarial cost method         | Entry age normal |
| Amortization method           | Level dollar     |
| Amortization period open      | 20 years         |
| Remaining amortization period | 16 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  
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE  
 NET PENSION LIABILITY  
 County Employees Retirement System (Non-hazardous)  
 Year ended June 30, 2015

|      | City's proportion of<br>net pension liability (asset) | City's proportionate share of<br>the net pension liability (asset) | City's covered-employee<br>payroll | City's proportionate share of the net<br>pension liability (asset) as a percentage of<br>its covered-employee payroll | Plan fiduciary net position as<br>a percentage of the total<br>pension liability |
|------|---|--|------------------------------------|---|--|
| 2015 | 0.07%   | \$ 2,355,000   | \$ 1,657,600                       | 142.07%   | 66.80%   |

- The amounts presented for each fiscal year were determined as of 6/30/14.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

CITY OF CORBIN, KENTUCKY  
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
County Employees Retirement System (Hazardous)  
Year ended June 30, 2015

|      | City's proportion of<br>net pension liability (asset) | City's proportionate share of<br>the net pension liability (asset) | City's covered-employee<br>payroll | City's proportionate share of the net<br>pension liability (asset) as a percentage of<br>its covered-employee payroll | Plan fiduciary net position as<br>a percentage of the total<br>pension liability |
|------|---|--|------------------------------------|---|--|
| 2015 | 0.33%   | \$ 3,986,000   | \$ 1,743,520                       | 228.62%   | 63.46%   |

\* The amounts presented for each fiscal year were determined as of 6/30/14.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.



CITY OF CORBIN, KENTUCKY  
SCHEDULE OF CITY CONTRIBUTIONS  
County Employees Retirement System (Non-hazardous)  
Year ended June 30, 2015

|      | Contractually required<br>contribution | Contributions in<br>relation to contractually<br>required contribution | Contribution<br>deficiency (excess) | City's<br>covered-employee<br>payroll | Contributions as<br>a percentage<br>of covered-employee payroll |
|------|--|--|-------------------------------------|---------------------------------------|---|
| 2015 | \$ 286,983                             | \$ 286,983   | \$ -                                | \$ 1,624,124                          | 17.67%  |
| 2014 | \$ 314,581                             | \$ 314,581   | \$ -                                | \$ 1,657,600                          | 18.98%  |

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

CITY OF CORBIN, KENTUCKY  
SCHEDULE OF CITY CONTRIBUTIONS  
County Employees Retirement System (Hazardous)  
Year ended June 30, 2015

|      | Contractually required<br>contribution | Contributions in<br>relation to contractually<br>required contribution | Contribution<br>deficiency (excess) | City's<br>City's covered-employee<br>payroll | Contributions as<br>a percentage<br>of covered-employee payroll |
|------|--|--|-------------------------------------|--|---|
| 2015 | \$ 521,927                             | \$ 521,927   | \$ -                                | \$ 1,521,210                                 | 34.31%  |
| 2014 | \$ 599,753                             | \$ 599,756   | \$ -                                | \$ 1,743,520                                 | 34.40%  |

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

## CITY OF CORBIN, KENTUCKY

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2015

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#### 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, 2015 was amended during the year as allowed by law. The amendment was approved in the same manner as the original budget was adopted.



**Cloyd & Associates, PSC**

*Certified Public Accountants*

**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, 2015, 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 15, 2015.

**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. We consider the matters noted in the accompanying Comments and Recommendations letter to be material weaknesses as noted.

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 15, 2015



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**Cloyd & Associates, PSC**

*Certified Public Accountants*

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 15, 2015. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Those issues are noted in the attached Comments and Recommendations letter dated October 15, 2015

**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 15, 2015



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**Cloyd & Associates, PSC**  
Certified Public Accountants

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, 2015, we considered the City'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 15, 2015, 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 15, 2015

**Comments and Recommendations  
City of Corbin, Kentucky  
June 30, 2015**

**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 asset acquisitions and disposals should be determined by City Management including department managers when they are purchased. Also assets purchased with federal funds are required to be inventoried at least every two years. As a result the City could lose assets to theft or misplacement and not be aware of the loss. The City management has been aware of this situation for some time but has failed to manage it properly. We recommend that a comprehensive study of all fixed assets be conducted and the City acquire the assets needed to manage the assets.
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. The City management has been aware of this situation for some time but has failed to manage it properly. All component units must be audited and included in the financial statements for the audit to be considered complete. The effect could be a failure to present the City's overall financial picture. We recommend that all component units be audited for inclusion in the City's overall financial statements.

**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.

3. 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. Failure to do so may allow fraud to occur and go undetected. The City has failed to provide such training. We recommend that fraud training be provided annually.
4. There is a failure of City management to be able to 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. The City relies upon a third party to produce the financial statements as it is allowed to do. The City's management should be able to produce such statements. The City does not have personnel adequately trained to produce such statements. We recommend the City have adequately trained personnel to produce such statements.

**Comments and Recommendations (continued)**  
**City of Corbin, Kentucky**  
**June 30, 2015**

5. 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 also cannot have the same pension fund presented in the format required by new pension standards. The pension fund should be measured properly on an annual basis and presented in the new format in order to be more transparent. The City's financial statements do not have the prescribed level of transparency without proper measurement. The City generally follows the law instead of GAAP in this situation. We recommend the City bring its plan in compliance with generally accepted accounting principles.

**Non-compliance**

6. The City failed to have an actuarial examination performed of the Police and Firemen's Pension Fund in a timely manner. KRS 65.156 states that an actuarial valuation shall be conducted at least every three years. City management failed to meet the obligation; however a valuation was performed as of July 1, 2015, which is four years past the last valuation. Failure to have the pension fund valued properly may cause the City's overall net position to be misstated. We recommend the City have valuations performed each year and in accordance with Governmental Accounting Standards Board Statement Numbers 67 and 68.
7. The City did not collateralize all of its deposits as required by KRS 91A.060. Both Kentucky law and best practices states that the City should have all of its deposits collateralized. The failure generally is the result of increasing bank accounts and lack of oversight concerning securities for deposits. This subjects the City to Custodial credit risk for deposits, which is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City should have agreements in place with all banks to collateralize funds immediately upon deposit.

**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.