

CITY OF CORBIN
Corbin, Kentucky

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016
with
INDEPENDENT AUDITOR'S REPORT

CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position.....	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet – Governmental Funds	10
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Postion.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	13
Statement of Fiduciary Net Position – Fiduciary Funds.....	14
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	15
Notes to Basic Financial Statements	16
Required Supplementary Information	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	40
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Arena Fund	41
Schedule of the City's Proportionate Share of the Net Pension Liability CERS Non-hazardous	42

Schedule of the City's Proportionate Share of the Net Pension Liability CERS Hazardous	43
Schedule of the City contributions CERS Non-hazardous	44
Schedule of the City contributions CERS Hazardous.....	45
Schedule of the City's Proportionate Share of the Net Pension Liability Police and Firefighters' Pension Fund.....	46
Schedule of the City contributions Police and Firefighters' Pension Fund	47
Notes to Required Supplementary Information	48
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards	50
Schedule of Findings and Recommendations.....	52



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INDEPENDENT AUDITOR'S REPORT

Mayor and Commissioners
City of Corbin
Corbin, Kentucky

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, as applicable, of the City of Corbin, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

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



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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 \$41 million, \$1 million and \$134,000 however, the actual amounts cannot be determined due to audits not performed on some component units as of June 30, 2016. Assets and net position mentioned above are primarily made up of capital assets of the Corbin Utility Commission. There is no aggregate remaining fund information in any of the discretely presented component units. The primary government 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, 2016, or the changes in financial position or cash flows, as applicable, thereof for the year then ended.

Basis for Qualified Opinion on the Governmental Activities

Management has adopted GASB 68 *Accounting and Financial Reporting for Pensions* for the Police and Firefighters' Pension Fund. However management has not adopted the proper methodology for determining the full effect of GASB 68 implementation in relation to the Fund. Management has determined the net pension liability but has not implemented the proper methods for determining deferred inflows and deferred outflows if any. In addition the procedures used do not allow for determination of the pension expense in accordance to GASB 68. The amount by which this departure would affect the assets, fund balances, revenues and expenses has not been determined.

Qualified Opinion

In our opinion except for the effects of the matter described in the "Basis for Qualified Opinion on the Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects the financial position of the Governmental Activities of the City of Corbin, Kentucky as of June 30, 2016 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of 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, 2016, 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.

Emphasis of Matter

As described in Note 16 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71 *Pension Fund, Pension Transition for Contributions Made Subsequent to the Measurement Date* for the Police and Firefighters", effective, July 1, 2015. Our opinion is not modified with respect to this matter. The City adopted the standard for the County Retirement System in the prior year.



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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 schedules per the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 6, 2016, 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 6, 2016
Corbin, KY

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) Year ended June 30, 2016

CITY OF CORBIN, KENTUCKY

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, 2016. 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 \$2,736,060 comprised of \$108,231 in restricted cash and \$2,627,829 in unrestricted cash. The prior year's cash balance was \$2,426,892 comprised of \$305,865 in restricted cash and \$2,121,027 in unrestricted cash.
- The City's combined net position increased by \$1,241,012 due to operations and decreased \$4,342,754 due to the implementation of Governmental Accounting Standards Board Statement number 68 applied to the Police and Firefighters' Fund which requires a government to recognize its share of overall pension liability.
- The general fund had approximately \$7.9 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 \$955,276 which represents approximately a 21% increase relative to the prior year. The Corbin Arena fund showed an overall increase of \$90,043, which represents approximately a 4% decrease. The total overall increase for governmental funds was \$1,045,319 or approximately 42% between 2015 and 2016.
- The City's total long-term liabilities increased by 4,810,216, relative to 2015 primarily due to recognition of the Police and Firefighters' net pension liability. Short term debt decreased by \$499,334 during the year. The ending long-term debt balance was \$21,980,094 including the net pension liabilities and accrued absences. The short-term debt balance at the end of the year was \$0.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2016

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 \$21 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, 2016

The City as a Whole

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

	Governmental Activities		Total	
	2015	2016	2015	2016
Current and other assets	\$ 3,976,264	\$ 4,444,579	\$ 3,976,264	\$ 4,444,579
Capital assets, net of depreciation	39,180,809	38,657,094	39,180,809	38,657,094
Total Assets	43,157,073	43,101,673	43,157,073	43,101,673
Deferred outflows of resources	852,364	1,937,188	852,364	1,937,188
Short-term liabilities	2,160,616	1,539,603	2,160,616	1,539,603
Other liabilities	16,496,832	21,345,235	16,496,832	21,345,235
Total Liabilities	18,657,448	22,884,838	18,657,448	22,884,838
Deferred inflows of resources	655,000	558,476	655,000	558,476
Net assets				
Net investment in				
capital assets	29,397,912	29,467,345	29,397,912	29,467,345
Restricted	59,309	36,988	59,309	36,988
Unrestricted	(4,759,932)	(7,908,786)	(4,759,932)	(7,908,786)
Total Net Position	\$ 24,697,289	\$ 21,595,547	\$ 24,697,289	\$ 21,595,547

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

Revenues				
Program revenues				
Charges for services	\$ 1,943,893	\$ 2,301,004	\$ 1,943,893	\$ 2,301,004
Operating Grants & contributions	1,342,866	1,563,046	1,342,866	1,563,046
Capital Grants & contributions	56,850	553,439	56,850	553,439
General revenues				
Local taxes	4,126,643	4,282,546	4,126,643	4,282,546
Regulatory fees	852,782	827,631	852,782	827,631
Licenses and permits	255,043	265,357	255,043	265,357
Earnings on investments	6,073	7,995	6,073	7,995
Other	601,303	373,786	601,303	373,786
Total revenues	9,185,453	10,174,804	9,185,453	10,174,804
Expenses				
General government	1,302,586	896,030	1,302,586	896,030
Police department	2,076,381	2,356,737	2,076,381	2,356,737
Fire department	1,291,482	1,429,782	1,291,482	1,429,782
Public works	1,720,130	1,870,798	1,720,130	1,870,798
Recycling center	378,626	410,712	378,626	410,712
Building inspector	109,784	106,210	109,784	106,210
Parks and recreation	580,196	456,198	580,196	456,198
Special projects	53,242	161,466	53,242	161,466
Arena	1,263,561	898,204	1,263,561	898,204
Downtown main street	258,165	185,238	258,165	185,238
Interest on debt service	227,850	162,417	227,850	162,417
Total expenses	\$ 9,262,003	\$ 8,933,792	\$ 9,262,003	\$ 8,933,792
Increase/(Decrease) in net position	\$ (76,550)	\$ 1,241,012	\$ (76,550)	\$ 1,241,012

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

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2016

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for fiscal years 2016 and 2015:

	<u>2015</u>	<u>2016</u>
Revenues and other financing sources		
Tax and related revenue	\$ 5,330,394	\$ 5,447,300
Licenses and permits	255,043	265,357
Fees for services	1,943,893	2,126,963
Rent	179,158	174,041
Investments	6,073	7,995
Intergovernmental	1,399,716	2,116,485
Other	71,177	36,663
Debt issue	263,831	-
	<u>9,449,285</u>	<u>10,174,804</u>
Total Revenue and other financing sources		
	<u>9,449,285</u>	<u>10,174,804</u>
Expenditures and other financing uses		
General government	920,376	787,659
Police department	2,030,855	2,129,956
Fire department	1,253,438	1,251,544
Public works	1,886,653	1,650,251
Recycling center	350,573	359,512
Building inspection	109,887	92,970
Parks and recreation	538,610	488,141
Special projects	139,261	734,342
Downtown main street	240,257	178,239
Arena	649,343	704,092
Debt service	882,753	752,779
	<u>9,002,006</u>	<u>9,129,485</u>
Total expenditures and other financing uses		
	<u>9,002,006</u>	<u>9,129,485</u>
Net change in fund balance	<u>\$ 447,279</u>	<u>\$ 1,045,319</u>

General Fund Revenue

The majority of revenue, net of debt, was derived from tax revenue (56% in 2016 and 54% in 2015). Fees for services made up 22% of revenue in 2016 and 21% in 2015. Interest income made up 0.07% of total revenues in 2016 and 0.07% in 2015.

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 and any separately issued component unit reports should be directed to the Corbin City Clerk, Corbin, Kentucky, 40701.

CITY OF CORBIN, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2016

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents - unrestricted	\$ 2,627,829
Restricted cash and cash equivalents	108,231
Taxes receivable:	
Restaurant tax	594,340
Insurance tax	463,583
Occupational tax	253,511
Grants receivable	52,048
Other receivables (net of allowance for uncollectible accounts)	344,283
Prepaid expense	754
Investment in fixed assets, net	
Non-depreciable	3,257,485
Depreciable	<u>35,399,609</u>
Total assets	<u>43,101,673</u>
Deferred outflows of resources	
Deferred outflows of resources - pension	1,896,520
Deferred outflows of resources created by debt refundings, net	<u>40,668</u>
	<u>1,937,188</u>
LIABILITIES	
Accounts payable	284,723
Accrued expenses	154,308
Unearned revenue	46,806
Due to component units	435,314
Accrued interest	24,061
Accrued compensated absences - current	19,700
Current portion of capital leases due	26,356
Current portion lease purchase agreements payable	548,335
Net Pension Liability County Employees Retirement System	7,380,209
Net Pension Liability Police and Firefighters' Pension Fund	5,235,262
Long-term portion of capital leases	229,226
Long-term portion of lease purchase agreements payable	8,385,832
Non-current portion of accrued compensated absences	<u>114,706</u>
Total liabilities	<u>22,884,838</u>
Deferred inflows of resources	
Deferred inflows of resources - pension	<u>558,476</u>
NET POSITION	
Net investment in capital assets	29,467,345
Restricted for:	
Operations	36,988
Capital expenditures	-
Unrestricted	<u>(7,908,786)</u>
Total net position	<u>\$ 21,595,547</u>

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

CITY OF CORBIN, KENTUCKY

STATEMENT OF ACTIVITIES
Year ended June 30, 2016

FUNCTIONS/PROGRAMS	Program Revenues				Primary Government
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities					
General Government	\$ 896,030	\$ 175,208	\$ 47,961	\$ -	\$ (672,861)
Police Department	2,356,737	42,256	174,782	-	(2,139,699)
Fire Department	1,429,782	-	83,884	-	(1,345,898)
Public Works	1,870,798	1,506,790	244,344	-	(119,664)
Recycling Center	410,712	70,187	-	-	(340,525)
Building Inspection	106,210	11,926	-	-	(94,284)
Parks and Recreation	456,198	53,713	-	-	(402,485)
Special Projects	161,466	-	-	553,439	391,973
Arena expenditures	898,204	440,924	1,012,075	-	554,795
Downtown Main Street	185,238	-	-	-	(185,238)
Interest on Long-Term Debt	162,417	-	-	-	(162,417)
Total primary government	\$ 8,933,792	\$ 2,301,004	\$ 1,563,046	\$ 553,439	(4,516,303)
			General revenues		
			Taxes:		
			Property	1,087,626	
			Motor vehicle	98,335	
			Occupational	1,499,916	
			Municipal insurance	1,510,917	
			Other	85,752	
			Alcohol regulatory fees	827,631	
			Municipal fees in lieu of taxes	337,123	
			Licenses and permits	265,357	
			Earnings on investments	7,995	
			Other	36,663	
			Total general revenues	5,757,315	
			Net position as of July 1, 2015	24,697,289	
			Restatement of net position	(4,342,754)	
			Restated net position as of July 1, 2016	20,354,535	
			Change in net position	1,241,012	
			Net position as of June 30, 2016	\$ 21,595,547	

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

CITY OF CORBIN, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	Corbin Arena Fund	ABC FUND	Total Governmental Funds
ASSETS				
Cash and cash equivalents - unrestricted	\$ 2,454,695	\$ 173,134	\$ -	\$ 2,627,829
Restricted cash and cash equivalents	36,234	-	71,997	\$ 108,231
Taxes receivable				
Restaurant tax	351,367	\$ 242,973	\$ -	594,340
Insurance tax	463,583	-	-	463,583
Occupational tax	253,511	-	-	253,511
Grants receivable	52,048	-	-	52,048
Other receivables (net of allowance for uncollectible accounts)	336,326	7,957	-	344,283
Prepaid expenses	754	-	-	754
Due from Arena Fund	2,364,550	-	-	2,364,550
Total assets	\$ 6,313,068	\$ 424,064	\$ 71,997	\$ 6,809,129
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 272,212	\$ 12,511	\$ -	\$ 284,723
Accrued expenses	145,948	8,360	-	154,308
Unearned revenue	35,374	11,432	-	46,806
Current portion of accrued compensated absences	19,700	-	-	19,700
Due to General Fund	-	2,364,550	-	2,364,550
Due to Component Units	363,317	-	71,997	435,314
Total liabilities	836,551	2,396,853	71,997	3,305,401
Fund balances				
Nonspendable	754	-	-	754
Restricted	36,234	-	-	36,234
Committed	28,792	-	-	28,792
Assigned	-	-	-	-
Unassigned	5,410,738	(1,972,789)	-	3,437,949
Total fund balances	5,476,518	(1,972,789)	-	3,503,729
Total liabilities and fund balances	\$ 6,313,068	\$ 424,064	\$ 71,997	\$ 6,809,129

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

CITY OF CORBIN, KENTUCKY

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

June 30, 2016

Total fund balances - governmental funds	\$ 3,503,729
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:	38,657,094
Deferred difference of reacquisition price of refunding bond and refunded bond are not recognized in the governmental funds but are recognized as deferred outflows in the statement of net assets.	40,668
Deferred outflows of resources are not presented in the governmental fund financial statements but are presented on the statement of net position.	1,896,520
Deferred inflows of resources are not presented in the governmental fund financial statements but are presented on the statement of net position.	(558,476)
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.	(9,189,750)
The net pension obligation is not expected to be paid from current economic resources and is not reported in the governmental funds balance sheet but is presented in the statement of net assets.	(12,615,471)
Long-term portion of accrued compensated absences is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	(114,706)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	<u>(24,061)</u>
Total net assets - governmental activities	<u>\$ 21,595,547</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, 2016

	General Fund	Corbin Arena Fund	ABC Fund	Total Governmental Funds
Revenues				
Taxes:				
Property	\$ 1,087,626	\$ -	\$ -	\$ 1,087,626
Motor vehicle	98,335	-	-	98,335
Occupational	1,499,916	-	-	1,499,916
Municipal insurance	1,510,917	-	-	1,510,917
Other	85,752	-	-	85,752
Alcohol regulatory fees and licenses		-	827,631	827,631
Revenue in lieu of tax	337,123	-	-	337,123
Licenses and permits	265,357	-	-	265,357
Fees for services	1,686,039	440,924	-	2,126,963
Rent	174,041	-	-	174,041
Interest	7,889	61	45	7,995
Intergovernmental revenues	1,104,410	1,012,075	-	2,116,485
Other	36,663	-	-	36,663
Total revenues	<u>7,894,068</u>	<u>1,453,060</u>	<u>827,676</u>	<u>10,174,804</u>
Expenditures				
General government	787,659	-	-	787,659
Police department	2,129,956	-	-	2,129,956
Fire department	1,251,544	-	-	1,251,544
Public works	1,650,251	-	-	1,650,251
Recycling center	359,512	-	-	359,512
Building inspection	92,970	-	-	92,970
Parks and Recreation	488,141	-	-	488,141
Special projects	734,342	-	-	734,342
Downtown Main street	178,239	-	-	178,239
Arena expenditures		704,092	-	704,092
Debt Service	93,854	658,925	-	752,779
Total expenditures	<u>7,766,468</u>	<u>1,363,017</u>	<u>-</u>	<u>9,129,485</u>
Excess (deficit) of revenues over (under) expenditures	127,600	90,043	827,676	1,045,319
Other financing sources (uses)				
Transfer in/out	827,676	-	(827,676)	-
Total other financing sources (uses)	<u>827,676</u>	<u>-</u>	<u>(827,676)</u>	<u>-</u>
Net change in fund balance	955,276	90,043	-	1,045,319
Fund balances, July 1, 2015	<u>4,521,242</u>	<u>(2,062,832)</u>	<u>-</u>	<u>2,458,410</u>
Fund balances, June 30, 2016	<u>\$ 5,476,518</u>	<u>\$ (1,972,789)</u>	<u>\$ -</u>	<u>\$ 3,503,729</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, 2016

Net change in total fund balances - governmental funds	\$ 1,045,319
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.	(523,715)
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.	593,148
Amortization of deferred outflow of resources from refunding bonds is not recognized on the governmental fund financial statements but is amortized on the government wide financial statements.	(2,786)
Changes in pension expense are not recognized 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.	144,925
The increase in accumulated vacation payable is not considered part of the current liability on the governmental fund financial statement but the full amount is expensed as incurred on the statement of activities	<u>(15,879)</u>
Change in net position - governmental activities	<u>\$ 1,241,012</u>

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

CITY OF CORBIN, KENTUCKY

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2016

	<u>Agency Funds</u>	<u>Pension Trust Funds</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 558,608
Investments	-	489,316
Receivables		
Interest	-	927
	<u>-</u>	<u>927</u>
Total Assets	<u>-</u>	<u>1,048,851</u>
LIABILITIES		
Due to agencies	-	-
	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>
NET POSITION		
Held in trust for pension benefits	<u>\$ -</u>	<u>\$ 1,048,851</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, 2016

ADDITIONS

Tax revenue	\$ 498,786
Interest	2,369
Other	<u>280</u>
Total revenues	<u>501,435</u>

DEDUCTIONS

Benefits	371,487
Plan administration	<u>5,530</u>
Total expenditures	<u>377,017</u>

Increase/(Decrease) in net assets 124,418

Net Assets, July 1, 2015 924,433

Net Position , June 30, 2016 \$ 1,048,851

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

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2016

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, 2016.

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 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 board is approved by the mayor and City commissioners, but there is no significant continuing relationship. 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, funding debt, and the disposition of surpluses.

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.

All component units with the exception of City Hall Public Corporation issue separate audited financial statements which can be obtained for the City Clerk at City of Corbin City Hall

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

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 or related assets and liabilities that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

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. 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. This is a major fund.

Corbin Arena Fund – The Arena fund accounts for all the activity of the Arena including debt service. The Arena fund is considered a special revenue fund and major 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. The City has mandated this to be a major fund.

Additionally, the City reports the following fund types:

Police and Firefighters' 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.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

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, 2016, the allowance for uncollectible accounts for governmental activities was \$13,000. Grants are fully recognized as revenues when earned because the City expects to collect the amount in full within 60 days of earning the revenue.

F. Prepaid expenses

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

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
Year ended June 30, 2016

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, 2016

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 \$40,668 at June 30, 2016.

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 Firefighters' Pension Fund. The City funds the Police and Firefighters' Pension Fund through tax assessments.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund balances:

The Board has elected to adopt GASB Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement substantially changed 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.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

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, 2016 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, if any, 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, 2016.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

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, 2016, the carrying amount of the City's cash and cash equivalents was \$2,736,829 which includes cash held by City Hall Public Corporation. The bank balance was \$2,851,967. The City also held \$1,047,924 for the Corbin Police and Firefighters' Pension Fund. Of the total cash balance, excluding petty cash of \$2,000 the entire amount was covered by federal depository insurance 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 & Firefighters' Pension Fund, \$108,231 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.

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, 2016, 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 Firefighters' 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, 2016

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

The City maintained a short-term line of credit of \$600,000 at Hometown Bank of Corbin. The purpose of the loan is to meet short-term commitments as needed. The balance owed on the line of credit line was paid off and cancelled at June 30, 2016; however, the City will likely need to establish a new line in the near future. The total short term borrowings at June 30, 2016 are outlined below:

Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2016</u>
<u>\$ 499,334</u>	<u>\$ -</u>	<u>\$ 499,334</u>	<u>\$ -</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, 2016 was as follows:

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>June 30, 2016</u>
Governmental activities				
Land	\$ 2,618,027	\$ -	\$ -	\$ 2,618,027
Buildings and improvements	47,705,550	-	-	47,705,550
Improvements				
other than buildings	3,578,787	103,758	-	3,682,545
Equipment	6,637,068	-	-	6,637,068
Other	113,803	133,084	-	246,887
Construction in progress	<u>86,019</u>	<u>553,439</u>	-	<u>639,458</u>
	<u>60,739,254</u>	<u>790,281</u>	-	<u>61,529,535</u>
 Less: Accumulated depreciaion				
Buildings and improvements	13,928,397	899,764	-	14,828,161
Improvements				
other than buildings	1,468,638	75,280	-	1,543,918
Equipment	6,081,387	333,262	-	6,414,649
Other	<u>80,023</u>	<u>5,690</u>	-	<u>85,713</u>
Total accumulated depreciation	<u>21,558,445</u>	<u>1,313,996</u>	-	<u>22,872,441</u>
 Governmental activities, net				
capital assets	<u>\$ 39,180,809</u>	<u>\$ (523,715)</u>	<u>\$ -</u>	<u>\$ 38,657,094</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS -- CONTINUED

Year ended June 30, 2016

NOTE 5 – CAPITAL ASSETS (continued)

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

General government	\$ 124,677
Police department	337,147
Fire department	198,105
Public works	261,215
Corbin recycling center	56,907
Parks and recreation	77,267
Building inspector	14,716
Downtown main street	28,213
Arena	<u>215,749</u>
	<u>\$ 1,313,996</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, 2016 are as follows:

Year ending <u>June 30,</u>	Principal <u>Payment</u>	Interest <u>and Fees</u>	<u>Total</u>
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	<u>254,748</u>	<u>11,222</u>	<u>265,970</u>
	<u>\$ 4,970,416</u>	<u>\$ 1,332,302</u>	<u>\$ 6,302,718</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
 Year ended June 30, 2016

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, 2016 are:

Year ending <u>June 30,</u>	Principal <u>Payment</u>	Interest <u>and Fees</u>	<u>Total</u>
2017	\$ 137,083	\$ 161,710	\$ 298,793
2018	142,083	157,254	299,337
2019	145,000	152,637	297,637
2020	147,083	147,924	295,007
2021	150,000	143,144	293,144
2022	154,167	138,112	292,279
2023	162,083	132,633	294,716
2024	167,083	126,672	293,755
2025	172,084	120,406	292,490
2026	177,083	113,589	290,672
2027	184,167	106,062	290,229
2028	192,083	98,236	290,319
2029	199,167	90,071	289,238
2030	209,167	81,607	290,774
2031	219,167	72,718	291,885
2032	227,083	63,403	290,486
2033	236,251	53,512	289,763
2034	249,167	42,881	292,048
2035	259,167	31,669	290,836
2036	271,250	20,006	291,256
2037	163,333	7,613	170,946
	<u>\$ 3,963,751</u>	<u>\$ 2,061,859</u>	<u>\$ 6,025,610</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

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 was retired during the year ended June 30, 2016

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, 2016 was \$44,403. Minimum required rental payments under this capital lease, together with the net present value of the minimum lease payments as of June 30, 2016 are:

2017	\$	26,861
2018		<u>17,907</u>
		44,768
Less amount representing interest		<u>365</u>
Present value of minimum lease payments	\$	<u>44,403</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

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, 2016 was \$195,065. Minimum required rental payments under this capital lease, together with the net present value of the minimum lease payments as of June 30, 2016 are:

Fiscal Year Ended June 30,	Amount
2017	\$ 41,758
2018	41,758
2019	41,758
2020	41,758
2021	41,756
	<hr/>
	208,788
Less amount representing interest	<hr/>
	13,723
Present value of minimum lease payments	<hr/>
	\$ 195,065

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

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, 2016 was \$16,114. Minimum required rental payments under this capital lease, together with the net present value of the minimum lease payments as of June 30, 2016 are:

Fiscal Year Ended June 30,	Amount
2017	\$ 9,194
2018	9,194
	<u>18,388</u>
Less amount representing interest	2,274
Present value of minimum lease payments	<u>\$ 16,114</u>

Changes in long-term liability for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
KLC Refinancing Lease Series 2012	\$ 4,095,834	\$ -	\$ 132,085	\$ 3,963,749
KLC Refinancing Lease Series 2010	5,359,583	-	389,169	4,970,414
Caterpillar Financial Service	10,367	-	10,367	-
TCF Bank	62,475	-	18,072	44,403
Kansas State Bank - Recreation	23,161	-	7,047	16,114
Branch Banking and Trust - Street Sweeper	231,476	-	36,411	195,065
Net pension liability County Employer Retirement	6,341,000	1,039,209	-	7,380,209
Net pension obligation police and Firefighters' fund	892,508	-	892,508	-
Net pension liability Police and FireFighters' Fund	-	5,235,262	-	5,235,262
Accrued absences	98,827	15,879	-	114,706
	<u>\$ 17,115,231</u>	<u>\$ 6,290,350</u>	<u>\$ 1,485,659</u>	<u>\$ 21,919,922</u>

Capital assets under capital lease at June 30, 2016 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.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

NOTE 7 – PENSION PLANS

A. General Government Employees

The City has two pension plans. 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 Firefighters' Pension Fund, which is closed to new participants.

The City's contribution to CERS for the years ended June 30, 2016, 2015, and 2014 was 545,136, 516,696, and 607,907 respectively. The City's contribution to the Police and Firefighters' Pension Plan for the years ended June 30, 2016, 2015, and 2014 was 495,905, 372,703 and 371,781 respectively.

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>.

Funding Policy – Funding for the Plan is provided through payroll withholdings and matching City contributions. For 2016 the City contributed 17.06% of non-hazardous duty employee total compensation of which 12.42% was for pension and 4.64% was for insurance. The City contributed 32.95% for hazardous duty employees of which 20.26% was for pensions and 12.89% was for insurance

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:

Continued on Next Page

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
 Year ended June 30, 2016

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
		At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	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	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	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
	Reduced retirement	Age 50 or older with at least 180 months of service credit
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	25 years service
		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, 2016

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, 2016, 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	\$	2,992,950
City's proportionate share of the CERS net pension liability hazardous		<u>4,387,259</u>
	\$	<u>7,380,209</u>

The net pension liability for each plan was measured as of June 30, 2015, 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, 2015, the City's proportion was 0.069611% of non-hazardous and 0.285795% of hazardous.

For the year ended June 30, 2016, the City recognized pension expense of \$603,579 related to CERS hazardous and non-hazardous. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 120,161	\$ -
Changes of assumptions	680,937	-
Net difference between projected and actual earnings on pension plan investments	54,381	
Changes in proportion and differences between District contributions and proportionate share of contributions	-	558,476
City contributions subsequent to the measurement date	<u>545,136</u>	<u>-</u>
Total	<u>\$ 1,400,615</u>	<u>\$ 558,476</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
 Year ended June 30, 2016

NOTE 7 – PENSION PLANS (Continued)

The \$545,136 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 73,407
2018	73,407
2019	73,407
2020	65,905
2021	10,877
	\$ 297,003

Actuarial assumptions—The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	3.25%
Projected salary increases	4.00%
Investment rate of return, net of investment expense & inflation	7.50%

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, 2016

NOTE 7 – PENSION PLANS (Continued)

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50%. 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 7.50%. 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 and KTRS 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:

	1% Decrease	Current Discount Rate	1% Increase
CERS Non-hazardous City's proportionate share of net pension liability	6.50% \$ 3,820,872	7.50% \$ 2,992,950	8.50% \$ 2,283,908
CERS Hazardous City's proportionate share of net pension liability	6.75% \$ 5,600,881	7.75% \$ 4,387,258	8.75% \$ 3,347,899

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 Firefighters' Pension Fund

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

General Information about the Police and Firemen' Pension Plan

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

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

NOTE 7 – PENSION PLANS (Continued)

B. Police and Firefighters' 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 \$102,039 and \$387,277 represented 9.74% and 36.96% of total holdings respectively.

The remaining assets are held in an interest bearing checking account and interest receivable. The checking account represents 53.30% 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.

Funding Policy - City contributions are determined by City ordinance and for the year ended June 30, 2016 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. There are no employee contributions.

Benefits provided – The Police and Firefighters' Pension Fund provides retirement, and death and disability benefits to Plan participants and beneficiaries. There are no active employees in the Plan and the Plan is closed to new participants. As of the valuation date of July 1, 2015, there were 12 retired employees and 9 beneficiaries in the Plan. All participants in the plan are fully vested.

To be eligible for the Plan, Police and Firefighter's must have been hired prior to the CERS enter date. Retirement is available after 20 years of service and the retirement income is 50% of the final salary plus 2% of the final salary per year of service between 20 and 25 years and 3% of the final salary of service between 25 and 30 years. Upon death a spouse is entitled to immediate income equal to the member's last rate of pay regardless the length of the employee's service is death is due to occupational causes otherwise one year of service is required. Death benefits cease if the spouse remarries. In addition \$24 is payable to the spouse for each minor child until the child reaches the age eighteen. Dependent parents may be entitled to 25% of the member's salary if neither a spouse nor a minor child survives. Disability benefits are based on 50% of the final rate of pay and upon death the survivors receive benefits under the death benefit provisions. Funeral benefits are limited to \$100. Cost of living adjustments are provided at the discretion of the Pension Board based on the consumer price index but may not exceed 5% in any given year. There are no required contributions by members. The Plan does not offer any health insurance to a member.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

NOTE 7 – PENSION PLANS (Continued)

B. Police and Firefighters' Pension Fund (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Police and Firefighter's Pension Plan.

At June 30 2016 the City reported \$5,235,262 as the net pension liability off the Police and Firefighters' Pension Plan. The City is 100% liable for the amount.

The net pension liability for the Plan was measured as of July 1, 2015 presumed to equal to June 30, 2015. The amount was determined by actuarial valuation as of that date. The City has not updated the liability amount or performed another actuarial study for June 30, 2016 and recognized that the pension liability could be overstated or understated but does not believe the amount to be material.

For the year ended June 30, 2016, the City did not recognize any pension expense related to the Police and Firefighter's Pension Plan. The was due to recognition of contributions after the measurement date being reclassified as deferred outflows and no change in the net pension liability from June 30, 2015 to June 30, 2016.

No deferred outflows of resources or deferred inflows of resources were calculated by the actuary based on differences between actual and expected experience, changes of assumption, net difference between projected and actual earnings on pension investments, and there were no changes in proportions. Deferred outflows of \$495,905 were recognized based on contributions subsequent to the measurement date.

The deferred outflow of \$495,905 will be recognized as a reduction in the net pension liability in the year ended June 30, 2017.

Actuarial assumption – Inflation is assumed to be 3% for purpose of valuation and investment rate of return is assumed to be 2%. There is no assumption for salary increases since there are no longer any active employees in the plan.

Mortality rates are based on the RP-2000 Mortality Table projected to 2015 without collar adjustment (separate tables for Male and Female lives).

Discount Rate – No discount rate was used to measure the total pension liability as there are no employee contributions and no statutorily required City contributions. However, the City does make annual contributions.

Sensitivity of the Net Pension Liability to change in the discount rate - Normally the City would calculate the Pension Liability based on a discount rate of 1% over and 1% under that used in order to demonstrate the sensitivity of the contributions. However, since there are no employee contributions and no statutorily required contributions, this has not been presented.

Pension plan fiduciary net position. – Detailed information about the pension plan's fiduciary net position is available from the City of Corbin and presented in the fiduciary portion of this report.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

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 \$174,440 for the year ended June 30, 2016.

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 \$140,712.

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 \$29,087.

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, 2016, the City of Corbin had \$754 in nonspendable fund balances representing prepaid insurance in the same amount.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2016

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 \$20,860 in police forfeiture funds, and \$15,374 in KOWA funding.

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 \$15,071 set aside in the Tourism Lighting Account, and \$13,721 in the Police and Fire Special Operations Account.

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

Effective July 1, 2015, the City was adopted Governmental Accounting Standards Board (GASB) Statement no. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which was previously adopted for the CERS plan. 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 related to the Police and Firefighters' fund required retrospective application in the current year. Since the City only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application to the Police and Firefighters' fund. The adjustment resulted in a \$4,342,754 reduction in beginning net position on the Statement of Activities

NOTE – 17 ALCOHOL REGULATORY FEES

The City recognized approximately \$827,676 in alcohol regulatory and license fee revenue during the year ended June 30, 2016. 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 6, 2016, the date which the financial states were available to be issued. Management has noted no issues that affect the current financial statements. Additional occupational tax was passed in the Knox County section of the City but does not affect these 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, 2016

	General Fund			Over (Under) Budget
	Original Budget	Final Budget	Actual	
REVENUES	\$ 8,500,771	\$ 8,602,751	\$ 7,894,068	\$ (708,683)
EXPENDITURES				
General government	929,780	1,312,950	787,659	(525,291)
Police department	2,219,751	2,219,751	2,129,956	(89,795)
Fire department	1,321,300	1,271,300	1,251,544	(19,756)
Public works	2,074,100	1,774,100	1,650,251	(123,849)
Recycling center	365,850	365,850	359,512	(6,338)
Building inspection	136,300	136,300	92,970	(43,330)
Parks and recreation	678,765	526,813	488,141	(38,672)
Special projects	168,950	389,557	734,342	344,785
Downtown main street Arena	235,880 276,350	235,880 276,350	178,239 -	(57,641) (276,350)
Total expenditures	<u>8,407,026</u>	<u>8,508,851</u>	<u>7,672,614</u>	<u>(836,237)</u>
OTHER FINANCING SOURCES				
Proceeds from debt	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING USES				
Transfer in	-	-	827,676	827,676
Bonded debt service	(93,745)	(93,900)	(93,854)	(46)
Total other financing sources	<u>(93,745)</u>	<u>(93,900)</u>	<u>733,822</u>	<u>(827,722)</u>
Net Change in Fund Balance	-	-	955,276	955,276
Fund balance, July 1, 2015	<u>4,521,242</u>	<u>4,521,242</u>	<u>4,521,242</u>	<u>-</u>
Fund balance June 30, 2016	<u>\$ 4,521,242</u>	<u>\$ 4,521,242</u>	<u>\$ 5,476,518</u>	<u>\$ 955,276</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, 2016

	Arena Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
REVENUES	\$ 1,392,900	\$ 1,497,900	\$ 1,453,060	\$ (44,840)
EXPENDITURES				
Arena	1,392,900	1,497,900	1,363,017	(134,883)
Total expenditures	1,392,900	1,497,900	1,363,017	(134,883)
Net Change in Fund Balance	-	-	90,043	90,043
Fund balance, July 1, 2014	(2,062,833)	(2,062,833)	(2,062,832)	-
Fund balance June 30, 2015	\$ (2,062,833)	\$ (2,062,833)	\$ (1,972,789)	\$ 90,043

See accompanying notes.

CITY OF CORBIN, KENTUCKY

SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employees Retirement System (Non Hazardous)
Year ended June 30, 2016

	<u>District's proportion of net pension liability (asset)</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered-employee payroll</u>	<u>District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2016	0.07%	\$2,992,950	\$ 1,633,089	183.27%	59.97%
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.

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

See accompanying notes.

CITY OF CORBIN, KENTUCKY

SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employees Retirement System (Hazardous)
Year ended June 30, 2016

	<u>District's proportion of net pension liability (asset)</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered-employee payroll</u>	<u>District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2016	0.29%	\$4,387,259	\$ 1,689,510	259.68%	59.97%
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.

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

See accompanying notes.

CITY OF CORBIN, KENTUCKY

SCHEDULE OF CONTRIBUTIONS

County Employees Retirement System (Non Hazardous)

Year ended June 30, 2016.

	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered-employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll**</u>
2016	\$202,825	\$202,825	\$ -	\$ 1,633,089	12.42%
2015	\$211,344	\$211,344	\$ -	\$ 1,657,600	12.75%

* The amounts presented for each fiscal year were determined as of 6/30.
 ** Pension contributions only.

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 CONTRIBUTIONS
 County Employees Retirement System (Hazardous)
 Year ended June 30, 2016

	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered-employee payroll**</u>	<u>Contributions as a percentage of covered-employee payroll**</u>
2016	\$342,311	\$342,311	\$ -	\$1,689,510	20.26%
2015	\$561,522	\$361,432	\$ -	\$1,743,520	20.73%

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

** Pension only.

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 PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
Police and Firefighters' Pension Fund
Year ended June 30, 2016

	<u>District's proportion of net pension liability (asset)</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered-employee payroll</u>	<u>District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2016	100.00%	\$5,235,262	\$ -	N/A	20.00%

* The amounts presented for each fiscal year were determined as of 6/30.
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 CONTRIBUTIONS
Police and Firefighters' Pension Fund
Year ended June 30, 2016

	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered-employee payroll**</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2016	\$495,095	\$495,095	\$ -	\$ -	NA

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

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, 2016

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, 2016 was amended during the year as allowed by law. The amendment was approved in the same manner as the original budget was adopted.

CITY OF CORBIN, KENTUCKY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2016

Notes to Required Supplementary Information (Continued)

Note B - CERS Retirement Plan

1. Change of benefit terms : None
2. Changes of Assumptions:
 - A. The assumed investment rate of return was decreased from 7.75% to 7.50%.
 - B. The assumed rate of inflation was reduced from 3.50% to 3.25%
 - C. The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
 - D. Payroll growth was reduced from 4.50% to 4.00%.
 - E. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
 - F. For healthy retired members and beneficiaries the mortality table used is the RP-2000 Combined Mortality Table with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB (set back four years for males) is used for the period after retirement there is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
 - G. The assume rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

Note C – Police and Firefighters’ Pension Fund.

1. Changes of benefit terms: None
2. Changes of assumptions;
 - A. The assumed rate of return was changed from 4% to 2%.
 - B. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2015 without collar adjustment.



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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, 2016, 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 6, 2016.

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 Schedule of Findings 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 Schedule of Findings and Recommendations Letter dated October 6, 2016



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 Schedule of Findings and Recommendations letter dated October 6, 2016. 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 6, 2016

Managements Response to Findings

The City of Corbin, Kentucky's management's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Recommendations. The City management's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly we express no opinion on it.

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 6, 2016

Schedule of Findings and Recommendations
City of Corbin, Kentucky
June 30, 2016

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 a 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 or proper updates are performed on all component units. The City management has been aware of this situation for some time. 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 of City management to be able produce GAAP financial statements; however, the City management does indicate an understanding of the underlying financial assertions upon which the GAAP financial statements are produced. 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.
4. There is a failure of City Management to have the actuarial study of the Police and Firefighters' Pension Fund to be conducted timely in accordance with GAAP which requires either performance every year or an update. The pension fund should be measured properly or updated 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 have annual actuarial studies performed or, at the minimum, the updates required to derive all disclosures.

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.