

CITY UTILITIES COMMISSION
Corbin, Kentucky

REPORT OF AUDIT
Years Ended December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

March 15, 2016

Members of the Board
City Utilities Commission
Corbin, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the City Utilities Commission (the "Commission"), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Commission'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

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Commission'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information on pages 4-10 and 25-26, respectively, 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements as a whole. The Departmental Schedules of Operating Revenues and Expenses and Schedules of Production Data are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including

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comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

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Certified Public Accountants

CITY UTILITIES COMMISSION
Corbin, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2015

As the Board of the City Utilities Commission, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal years ended December 31, 2015 and 2014. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Commission's financial statements and notes to the basic financial statements in order to enhance their understanding of the Commission's financial performance.

OVERVIEW OF UTILITY OPERATIONS

The City Utilities Commission of Corbin (CUC) and nine other Kentucky Utilities Company (KU) municipal wholesale electric customers (Barbourville, Bardwell, Benham, Berea, Falmouth, Frankfort, Madisonville, Paris, and Providence) gave cancellation notice for their wholesale power supply contracts with KU, and the contracts expire in April 2019. The group formed the Kentucky Municipal Energy Agency (KyMEA) to coordinate the scheduling and dispatching of generating assets and contractual power supplies to meet the joint electrical demands and optimize the power supply portfolios of the members. Berea is still contemplating joining the agency. Wholesale power supply contracts are being negotiated for the members power supply to begin in May 2019. The new wholesale power rates will be competitive with KU's rates, and at this time are lower than KU's rates.

A loan through Kentucky's Clean Water Revolving Loan Fund for a wastewater treatment plant upgrade has been approved for \$8,684,115. The total project cost is estimated at \$9,961,600, with the balance of \$1,277,485 from CUC reserves. The project will allow increased flows to the wastewater treatment plant during heavy rainfall events which increases flows in the sanitary sewer collection system and cause sanitary sewer overflows (SSO's). The upgrade should help prevent most, if not all, SSO events due to inflow during heavy rains. CUC's sewer rates will have to be increased to cover the loan costs, around \$1 per thousand gallons. Bids are scheduled to be opened on March 30, 2016.

CUC is working with an engineering consultant to study the flows in the Master Street sewer main that has major SSO's during heavy rainfall events. The sewer main on Master Street will have to be upgraded to be able to handle the increased flows due to inflow/infiltration.

CUC is working with an engineering consultant on a project to clean and repair the clear well at the water plant. Currently a contractor is replacing the filter media in the four filters at the water plant. Both of these projects will help minimize the disinfection byproducts in the water supply.

CUC is working with an engineering consultant on a project to replace an old sewer pump station on Debbie Lane, which is having problems with the pumps failing. There are several old sewer pump stations that need replaced/upgraded. CUC will schedule new sewer pump station replacement projects in the next few years.

The City Utilities Commission of Corbin (CUC) continues to look for new procedures and projects to improve the electric, water and sanitary sewer systems, and continually strives to provide quality service to CUC's customers. CUC's electric, water and sanitary sewer rates continue to be among the lowest in Kentucky.

CITY UTILITIES COMMISSION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2015

FINANCIAL HIGHLIGHTS

- Total operating revenues increased \$96,376 or .88% from the prior year. The increase is primarily due to the increase in overall sales and service charges in 2015. Kilowatt hours sold (in thousands) decreased from 73,999 kWh in 2014 to 72,606 kWh in 2015. Unaccounted units for the electric department saw an increase from 3,328 units in 2014 to 3,763 units in 2015.
- Production, transmission, treatment, distribution and collection expenses increased \$52,855 or .57% from the prior year.
- Nonoperating revenues (expenses) decreased \$326,002 from the prior year. State grant monies received and expended on 2015 projects saw a decrease of funding in the amount of \$602,495 from the prior year. In 2015, the Commission recognized \$270,000 of contributed infrastructure assets.
- Operating transfers to the City of Corbin decreased \$12,525 from the prior year.
- Total assets decreased \$374,220 and total liabilities decreased \$524,959, resulting in total net position increasing \$150,739 or .36% from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of two components: 1) government-wide financial statements, and 2) 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 Commission's finances, in a manner similar to private-sector business.

The statements of net position present information on all of the Commission'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 Commission is improving or deteriorating.

The statements of revenues, expenses and changes in net position present information showing how the Commission's net position changed during the years. All changes in net position 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 these statements for some items that will only result in cash flows in future fiscal periods.

The business-type activities of the Commission are to provide utility services to customers.

The government-wide financial statements can be found on pages 11 through 15 of this report.

CITY UTILITIES COMMISSION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2015

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements. The notes to the basic financial statements can be found on pages 16 through 24 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve, over time, as a useful indicator of the Commission's financial position. In the case of the Commission, assets exceeded liabilities by \$41,455,530 as of December 31, 2015. This is a current year net increase of \$150,739.

The largest portion of the Commission's net position are capital assets, net of depreciation, of \$37,995,802, cash and cash equivalents of \$2,938,798 and investments of \$1,265,875.

The Commission's financial position is the product of several financial transactions, including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the Years Ending December 31, 2015 and 2014

The Statements of Net Position include all of the Commission's assets and liabilities and provide information about the nature and amount of investments in resources and the obligations to creditors. These statements provide the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Commission.

The Commission's 2015 net position compared to 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Current assets	\$ 5,877,405	\$ 5,859,282
Noncurrent assets	<u>39,091,120</u>	<u>39,483,463</u>
Total Assets	<u>44,968,525</u>	<u>45,342,745</u>
Current liabilities	3,486,124	3,993,610
Noncurrent liabilities	<u>26,871</u>	<u>44,344</u>
Total Liabilities	<u>3,512,995</u>	<u>4,037,954</u>
Net position		
Net investment in capital assets	36,579,794	36,890,708
Restricted	161,119	145,309
Unrestricted	<u>4,714,617</u>	<u>4,268,774</u>
Total Net Position	<u>\$ 41,455,530</u>	<u>\$ 41,304,791</u>

CITY UTILITIES COMMISSION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2015

REVENUE AND EXPENDITURES SUMMARY

The following table presents a summary of revenues and expenditures for the fiscal years ended December 31, as follows:

	<u>2015</u>		<u>2014</u>	
	Amount	Percent	Amount	Percent
Operating revenues:				
Sales and service charges	\$10,509,722	95.52%	\$10,426,379	95.60%
Penalties	119,773	1.09	117,714	1.08
Other operating revenues	<u>373,525</u>	<u>3.39</u>	<u>362,551</u>	<u>3.32</u>
Total operating revenues	11,003,020	100.00	10,906,644	100.00
Production, transmission, treatment, distribution and collection expenses	<u>(9,255,222)</u>	<u>(84.12)</u>	<u>(9,202,367)</u>	<u>(84.37)</u>
Income (loss) from operations before general and administrative expenses	1,747,798	15.88	1,704,277	15.63
General and administrative expenses	<u>(1,320,170)</u>	<u>(11.99)</u>	<u>(1,198,046)</u>	<u>(10.99)</u>
Income (loss) from operations	427,628	3.89	506,231	4.64
Nonoperating revenues (expenses)	<u>453,626</u>	<u>4.12</u>	<u>779,628</u>	<u>7.15</u>
Income (loss) before operating transfers	881,254	8.01	1,285,859	11.79
Operating transfers – City of Corbin	<u>(730,515)</u>	<u>(6.64)</u>	<u>(743,040)</u>	<u>(6.81)</u>
Change in net position	<u>\$ 150,739</u>	<u>1.37%</u>	<u>\$ 542,819</u>	<u>4.98%</u>

OVERALL OPERATIONS – COMPARISON BY DEPARTMENTS

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Electric			
Operating revenues	\$ 6,593,243	\$ 6,489,139	\$ 104,104
Production, transmission, distribution and other expenses	<u>(5,382,118)</u>	<u>(5,835,690)</u>	<u>453,572</u>
Net operating revenues	<u>\$ 1,211,125</u>	<u>\$ 653,449</u>	<u>\$ 557,676</u>

The net operating revenues increase of \$557,676 for the electric department is primarily due to the net decrease in wholesale power costs in 2015 from settlement refunds received by the Commission of \$365,532 from KU, which offset current year wholesale power costs. The Commission's metered customers increased slightly in 2015.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2015

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Water			
Operating revenues	\$ 2,664,323	\$ 2,670,854	\$ (6,531)
Production, distribution and other expenses	<u>(2,454,591)</u>	<u>(2,083,803)</u>	<u>(370,788)</u>
Net operating revenues	<u>\$ 209,732</u>	<u>\$ 587,051</u>	<u>\$ (377,319)</u>

The net operating revenues decrease of \$377,319 for the water department is due to the increase in production, distribution and other expenses. In 2015, the Commission incurred additional costs for several major maintenance projects, including the cleaning out of water tanks, replacement of meters and hydrants, and extensive testing and chemical usage.

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Wastewater			
Operating revenues	\$ 1,745,454	\$ 1,746,651	\$ (1,197)
Treatment, collection and other expenses	<u>(1,418,513)</u>	<u>(1,282,874)</u>	<u>(135,639)</u>
Net operating revenues	<u>\$ 326,941</u>	<u>\$ 463,777</u>	<u>\$ (136,836)</u>

The net operating revenues decrease of \$136,836 for the wastewater department is due to the increase in maintenance of equipment and depreciation expense.

PRODUCTION DATA – COMPARISON BY DEPARTMENTS

	<u>2015</u>	<u>2014</u>
Electric		
Units (in thousand kWh) purchased and produced	82,728	83,928
Units accounted for	<u>(78,965)</u>	<u>(80,600)</u>
Unaccounted units	<u>3,763</u>	<u>3,328</u>
Percentage unaccounted for	<u>4.55%</u>	<u>3.96%</u>
Number of metered customers at year end	<u>4,082</u>	<u>4,078</u>
Water		
Units (in thousand gallons) purchased and produced	972,909	969,483
Units accounted for	<u>(882,402)</u>	<u>(915,315)</u>
Unaccounted units	<u>90,507</u>	<u>54,168</u>
Percentage unaccounted for	<u>9.30%</u>	<u>5.59%</u>
Number of metered customers at year end	<u>6,465</u>	<u>6,415</u>
Wastewater		
Number of metered customers at year end	<u>4,416</u>	<u>4,407</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2015

In 2015, the number of metered customers increased for all departments of the Commission. The percentage of unaccounted units for the electric department increased from 3.96% in 2014 to 4.55% in 2015. The water department experienced an increase in the percentage of unaccounted units from 5.59% in 2014 to 9.30% in 2015.

COMMENTS ON BUDGET COMPARISONS

With the passage of HB-1 in the Kentucky legislature, the Commission was required to adopt a budget in 2015, which was filed with the Kentucky Department of Local Government. The Commission was deemed to be a Special Purpose Governmental Entity (SPGE), and as such, became subject to the budget presentation requirements.

- The Commission's total operating revenues for the year ended December 31, 2015 were \$11,003,020.
- Budgeted operating revenues compared to actual varied from line item to line item, with the ending actual balance being \$119,980 less than budget or 1.08%.
- The Commission's total production, transmission, treatment, distribution and collection expenses for the year ended December 31, 2015 were \$9,255,222.
- Budgeted production, transmission, treatment, distribution and collection expenses compared to actual varied significantly in production, transmission and treatment expenses with them being \$465,539 under budget. The total actual expenses were \$274,278 less than budget or 2.88%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of December 31, 2015, the Commission had \$37,995,802 invested in capital assets. This represents a net decrease of \$425,045.

A comparison of the capital assets at December 31 is as follows:

	<u>2015</u>	<u>2014</u>
Land and land rights	\$ 1,218,261	\$ 1,170,698
Construction in progress	440,647	75,552
Electric plant and equipment	767,066	784,920
Water plant and equipment	15,883,259	16,388,086
Wastewater plant and equipment	15,188,393	15,478,020
Other plant and equipment	<u>4,498,176</u>	<u>4,523,571</u>
Total Assets	<u>\$ 37,995,802</u>	<u>\$ 38,420,847</u>

CITY UTILITIES COMMISSION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2015

DEBT ADMINISTRATION

At the end of December 31, 2015, the District had \$1,416,008 in outstanding debt compared to \$1,530,139 last year. That is a decrease of 7.46%.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Utilities Commission, 1515 Cumberland Falls Highway, Corbin, Kentucky 40701.

CITY UTILITIES COMMISSION
Corbin, Kentucky

STATEMENTS OF NET POSITION
December 31,

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,938,798	\$ 2,624,177
Investments	1,265,875	1,262,440
Accounts receivable, net	914,366	1,088,165
Unbilled accounts receivable – estimated	421,320	400,892
Other receivables	49,053	46,412
Material and supplies inventory	235,116	371,462
Prepaid insurance	<u>52,877</u>	<u>65,734</u>
Total current assets	<u>5,877,405</u>	<u>5,859,282</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	445,318	412,616
Restricted investments	650,000	650,000
Capital assets, net	<u>37,995,802</u>	<u>38,420,847</u>
Total noncurrent assets	<u>39,091,120</u>	<u>39,483,463</u>
TOTAL ASSETS	<u>44,968,525</u>	<u>45,342,745</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable and accrued expenses	1,098,822	1,522,332
Accrued compensated absences	63,967	68,176
Notes payable – Kentucky Infrastructure Authority	17,473	17,129
Mortgage payable – Hometown Bank	1,371,664	1,468,666
Customer deposits	<u>934,198</u>	<u>917,307</u>
Total current liabilities	<u>3,486,124</u>	<u>3,993,610</u>
NONCURRENT LIABILITIES		
Notes payable – Kentucky Infrastructure Authority	<u>26,871</u>	<u>44,344</u>
Total noncurrent liabilities	<u>26,871</u>	<u>44,344</u>
TOTAL LIABILITIES	<u>3,512,995</u>	<u>4,037,954</u>
NET POSITION		
Net investment in capital assets	36,579,794	36,890,708
Restricted for:		
Customer deposits	90,315	74,611
Construction	55,804	55,698
Debt service	15,000	15,000
Unrestricted	<u>4,714,617</u>	<u>4,268,774</u>
TOTAL NET POSITION	<u>\$ 41,455,530</u>	<u>\$ 41,304,791</u>

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

CITY UTILITIES COMMISSION
Corbin, Kentucky

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31,

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Sales and service charges	\$ 10,509,722	\$ 10,426,379
Penalties	119,773	117,714
Other operating revenues	<u>373,525</u>	<u>362,551</u>
Total operating revenues	<u>11,003,020</u>	<u>10,906,644</u>
PRODUCTION, TRANSMISSION, TREATMENT, DISTRIBUTION AND COLLECTION EXPENSES		
Production, transmission and treatment	6,026,461	6,421,531
Distribution and collection	1,577,837	1,207,580
Depreciation	1,281,186	1,201,153
Transportation	57,582	78,292
Customer accounting and collection	<u>312,156</u>	<u>293,811</u>
Total production, transmission, treatment, distribution and collection expenses	<u>9,255,222</u>	<u>9,202,367</u>
Income (loss) from operations before general and administrative expenses	<u>1,747,798</u>	<u>1,704,277</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and wages	216,718	217,814
Office supplies and expenses	36,467	20,130
Credit card fees	12,669	8,929
Utilities and telephone	32,015	35,124
Outside services employed	40,086	18,135
Insurance	412,512	386,814
Employee benefits	119,449	122,361
Janitorial services and supplies	17,818	16,360
Maintenance and repairs	28,068	21,435
Depreciation	207,751	155,872
Bad debts	18,778	13,460
Bank service charges	114	230
Pension plan	155,868	158,744
Sick leave pension plan	6,165	5,913
Miscellaneous	<u>15,692</u>	<u>16,725</u>
Total general and administrative expenses	<u>1,320,170</u>	<u>1,198,046</u>
Income (loss) from operations	<u>427,628</u>	<u>506,231</u>

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

CITY UTILITIES COMMISSION
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)
Years Ended December 31,

	<u>2015</u>	<u>2014</u>
NONOPERATING REVENUES (EXPENSES)		
State grant monies	214,747	817,242
Contributions of infrastructure assets – government agencies	270,000	-
Interest income	18,590	18,388
Gain (loss) on sale of inventory/property	3,879	3,744
Contributions in lieu of taxes	(3,394)	(3,345)
Interest expense – customer deposits	(1,017)	(1,075)
Interest expense – mortgage	(48,063)	(52,823)
Interest expense – construction funds	(1,116)	(2,503)
Total nonoperating revenues (expenses)	<u>453,626</u>	<u>779,628</u>
Income (loss) before operating transfers	881,254	1,285,859
OPERATING TRANSFERS IN (OUT)		
Transfers to City of Corbin	<u>(730,515)</u>	<u>(743,040)</u>
Change in net position	150,739	542,819
Net position, beginning of year	<u>41,304,791</u>	<u>40,761,972</u>
Net position, end of year	<u>\$ 41,455,530</u>	<u>\$ 41,304,791</u>

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

CITY UTILITIES COMMISSION
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STATEMENTS OF CASH FLOWS
Years Ended December 31,

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 11,156,391	\$ 10,903,576
Cash payments for production, transmission, treatment, distribution and collection expenses	(8,026,342)	(7,305,632)
Cash payments for general and administrative expenses	<u>(1,324,379)</u>	<u>(999,602)</u>
Net cash provided (used) by operating activities	<u>1,805,670</u>	<u>2,598,342</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to City of Corbin	(730,515)	(743,040)
Contributions in lieu of taxes	<u>(3,394)</u>	<u>(3,345)</u>
Net cash provided (used) by noncapital financing activities	<u>(733,909)</u>	<u>(746,385)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(698,797)	(1,882,026)
Change in construction in progress	(365,095)	354,446
Proceeds from sale of inventory/property	3,879	3,744
Principal payments on KIA loans	(17,129)	(70,797)
Principal payments on mortgage payable – Hometown Bank	(97,002)	(92,252)
Interest expense	(50,196)	(56,401)
Contributions from government agencies	<u>270,000</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(954,340)</u>	<u>(1,743,286)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of state grants	214,747	817,242
Receipt of interest on cash and investments	18,590	18,388
Net proceeds (purchases) – investment securities	<u>(3,435)</u>	<u>(3,856)</u>
Net cash provided (used) by investing activities	<u>229,902</u>	<u>831,774</u>
 Net increase (decrease) in cash and cash equivalents	 347,323	 940,445
Cash and cash equivalents, beginning of year	<u>3,036,793</u>	<u>2,096,348</u>
Cash and cash equivalents, end of year	<u>\$ 3,384,116</u>	<u>\$ 3,036,793</u>
 Restricted cash and equivalents	 \$ 445,318	 \$ 412,616
Unrestricted cash and equivalents	<u>2,938,798</u>	<u>2,624,177</u>
Total cash and equivalents, end of year	<u>\$ 3,384,116</u>	<u>\$ 3,036,793</u>

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

CITY UTILITIES COMMISSION
Corbin, Kentucky

STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31,

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Income (loss) from operations	\$ 427,628	\$ 506,231
ADJUSTMENTS TO RECONCILE INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation	1,488,937	1,357,025
Provision for doubtful accounts	(37)	632
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	173,836	(75,016)
(Increase) decrease in unbilled accounts receivable	(20,428)	79,482
(Increase) decrease in other receivables	(2,641)	(2,030)
(Increase) decrease in material and supplies inventory	136,346	8,067
(Increase) decrease in prepaid insurance	12,857	(1,986)
Increase (decrease) in accounts payable and accrued expenses	(423,510)	695,582
Increase (decrease) in accrued compensated absences	(4,209)	460
Increase (decrease) in customer deposits	16,891	29,895
Net cash provided by (used in) operating activities	<u>\$ 1,805,670</u>	<u>\$ 2,598,342</u>

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

CITY UTILITIES COMMISSION
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2015

The City of Corbin, located in Whitley, Laurel and Knox Counties, Kentucky is a duly organized city of the fourth class pursuant to provisions of the Kentucky Revised Statutes, and as such, has the power and authority to construct a combined electric, water and wastewater system for the purpose of supplying its inhabitants with such services, which was accomplished in 1948. Under the provisions of the Kentucky Revised Statutes, the City of Corbin, Kentucky, by ordinance, appoints a City Utility Commission consisting of three commissioners to operate, manage and control the electric, water and wastewater plants. The Commission is a Special Purpose Governmental Entity, and has absolute control of the plants in every respect, including operation and fiscal management and the regulation of rates, except that in fixing rates the Commission shall be governed by the applicable provisions of the Kentucky Revised Statutes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City Utilities Commission (the Commission) conform to U.S. generally accepted accounting principles (GAAP). The Commission applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB), in which case, GASB prevails. The following is a summary of the more significant policies:

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Commission's financial statements are prepared using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or prepaid amounts have been utilized.

CASH AND CASH EQUIVALENTS

All cash, unrestricted and restricted, is considered cash for the purposes of the statement of cash flows.

ACCOUNTS RECEIVABLE

Accounts receivable are carried at net of allowance for doubtful accounts. The allowance for doubtful accounts is based on historical bad debt experience and is estimated to be approximately .2% of electric, water and wastewater sales.

INVENTORY

As items of materials and supplies are purchased, a charge is made to the property, plant and equipment account or an expense account, based upon the nature of the item and its intended use. At the end of each year, a physical inventory is taken and the values of materials and supplies on hand are reclassified from the property, plant and equipment accounts, or expense accounts, and recorded as inventory. The inventories are valued at the lower of cost or market based on the first-in, first-out method.

INTEREST CAPITALIZATION

Interest costs are capitalized when incurred by the Commission on debt where proceeds were used to finance the construction of utility assets.

CITY UTILITIES COMMISSION
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Buildings	39 years
General/transportation equipment	5-10 years
Waterlines and sewerlines	20-50 years

CONCENTRATIONS OF CREDIT

Financial instruments, which potentially subject the Commission to concentrations of credit risk, consist principally of temporary cash investments. The Commission places its temporary cash investments with high credit quality financial institutions and has collateral securities pledged in addition to FDIC coverage.

NET POSITION

Net position represents the difference between assets and liabilities. The investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Commission or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Commission's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CAPITAL AND OPERATING GRANTS

Grants that are restricted to the purchase of property, plant and equipment are recorded as other income, per GASB 33. The Commission received \$214,747 and \$817,242 in grants of this type for the years ended December 31, 2015 and 2014.

Infrastructure assets constructed by outside entities then taken over by the Commission are also recorded as other income per GASB 33. These amounts constitute noncash transactions. The Commission took over infrastructure assets, consisting of water and sewer lines, of \$270,000 for the year ended December 31, 2015. There were no such assets for the year ended December 31, 2014.

CITY UTILITIES COMMISSION
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 – CASH AND CASH EQUIVALENTS

The Commission's cash deposits can be categorized according to three levels of risk.

These three levels of risk are as follows:

- Category 1 Deposits that are insured or collateralized with securities, held by the Commission or by its agent in the Commission's name.
- Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name.
- Category 3 Deposits that are not collateralized or insured.

Based on these three levels of risk, the Commission's cash deposits are classified as Category 1 and 2.

Statutes authorize the Commission to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities, repurchase agreements and certificates of deposit. The carrying value of investments owned was \$1,915,875 and \$1,912,440 for the years ended December 31, 2015 and 2014, respectively, which approximates market.

Similar to cash deposits, investments held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 Investments that are insured, registered or held by the entity or by its agent in the Commission's name.
- Category 2 Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the Commission's name.
- Category 3 Uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the Commission's name.

Based on these three levels of risk, all of the Commission's investments are classified as Category 1.

The Commission maintains cash and investment accounts at four banks located in Corbin, Kentucky. At December 31, 2015, the carrying amount of these accounts, excluding petty cash accounts in the amount of \$1,500, was \$5,298,491, and the bank balance (before deposits in transit and outstanding checks) was \$5,324,297. At December 31, 2014, the carrying amount of these accounts, excluding petty cash accounts in the amount of \$1,500, was \$4,947,733, and the bank balance (before deposits in transit and outstanding checks) was \$4,996,938.

CITY UTILITIES COMMISSION
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 – CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance <u>1-1-15</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12-31-15</u>
Land and land rights	\$ 1,170,698	\$ 47,563	\$ -	\$ 1,218,261
Construction in progress	75,552	365,095	-	440,647
Electric plant and equipment:				
Sub-station and transmission	762,850	9,602	-	772,452
Distribution	3,135,128	26,634	-	3,161,762
Water plant and equipment:				
Source of supply	1,020,238	-	-	1,020,238
Pumping and treatment	10,198,581	8,450	-	10,207,031
Transmission and distribution	19,928,474	132,513	-	20,060,987
Wastewater plant and equipment:				
Wastewater disposal plant	7,826,675	-	-	7,826,675
Collection lines and equipment	20,140,150	291,679	-	20,431,829
Other plant and equipment:				
Structures and improvements	4,475,673	-	-	4,475,673
Transportation equipment	1,053,672	94,051	-	1,147,723
Other equipment	717,517	88,305	-	805,822
Totals, at cost	<u>70,505,208</u>	<u>1,063,892</u>	<u>-</u>	<u>71,569,100</u>
Less accumulated depreciation:				
Electric plant and equipment	3,113,058	-	54,090	3,167,148
Water plant and equipment	14,759,207	-	645,790	15,404,997
Wastewater plant and equipment	12,488,805	-	581,306	13,070,111
Other plant and equipment	1,723,291	-	207,751	1,931,042
Totals accumulated depreciation	<u>32,084,361</u>	<u>-</u>	<u>1,488,937</u>	<u>33,573,298</u>
Capital assets, net	<u>\$ 38,420,847</u>	<u>\$ 1,063,892</u>	<u>\$ 1,488,937</u>	<u>\$ 37,995,802</u>

	Balance <u>1-1-14</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12-31-14</u>
Land and land rights	\$ 1,170,698	\$ -	\$ -	\$ 1,170,698
Construction in progress	429,998	1,078,388	1,432,834	75,552
Electric plant and equipment:				
Sub-station and transmission	760,815	2,035	-	762,850
Distribution	3,119,537	15,591	-	3,135,128
Water plant and equipment:				
Source of supply	1,020,238	-	-	1,020,238
Pumping and treatment	10,178,486	20,095	-	10,198,581

CITY UTILITIES COMMISSION
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 – CAPITAL ASSETS (CONTINUED)

A summary of changes in capital assets is as follows:

	Balance 1-1-14	<u>Additions</u>	<u>Deductions</u>	Balance 12-31-14
Transmission and distribution	19,569,067	359,407	-	19,928,474
Wastewater plant and equipment:				
Wastewater disposal plant	7,787,020	39,655	-	7,826,675
Collection lines and equipment	18,865,548	1,274,602	-	20,140,150
Other plant and equipment:				
Structures and improvements	4,472,941	2,732	-	4,475,673
Transportation equipment	1,026,964	26,708	-	1,053,672
Other equipment	<u>576,316</u>	<u>141,201</u>	-	<u>717,517</u>
Totals, at cost	<u>68,977,628</u>	<u>2,960,414</u>	<u>1,432,834</u>	<u>70,505,208</u>
Less accumulated depreciation:				
Electric plant and equipment	3,053,592	-	59,466	3,113,058
Water plant and equipment	14,131,102	-	628,105	14,759,207
Wastewater plant and equipment	11,975,223	-	513,582	12,488,805
Other plant and equipment	<u>1,567,419</u>	-	<u>155,872</u>	<u>1,723,291</u>
Totals accumulated depreciation	<u>30,727,336</u>	<u>-</u>	<u>1,357,025</u>	<u>32,084,361</u>
Capital assets, net	<u>\$ 38,250,292</u>	<u>\$ 2,960,414</u>	<u>\$ 2,789,859</u>	<u>\$ 38,420,847</u>

Depreciation expense was allocated as follows:

	<u>2015</u>	<u>2014</u>
Electric	\$ 54,090	\$ 59,466
Water	645,790	628,105
Wastewater	581,306	513,582
General	<u>207,751</u>	<u>155,872</u>
	<u>\$ 1,488,937</u>	<u>\$ 1,357,025</u>

NOTE 4 – COMPENSATED ABSENCES

Regular full-time employees are granted vacation benefits, in varying amounts, to specified maximums depending on tenure with the Commission. Generally, after one year of service, employees are entitled to accrue vacation leave and may carry up to ninety days' vacation time into the following calendar year. Upon termination of employment, employees will be paid for, up to and including, twenty days of unused vacation time accumulated or earned as of January 1 each year. The liability for accrued vacation leave at December 31, 2015 and 2014 was \$63,967 and \$68,176, respectively.

CITY UTILITIES COMMISSION
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 – COMPENSATED ABSENCES (CONTINUED)

Regular full-time employees are granted sick leave benefits for periods of temporary absence due to illness or injury. Eligible employees accrue sick leave benefits at the rate of fourteen days per year. Accumulation of sick leave shall not exceed one hundred twenty days. There has been no accrual for sick leave recorded at December 31, 2015 or 2014. In 2005, the Commission adopted a policy to allow employees to donate sick leave to fellow employees, subject to certain restrictions and approval by the general manager.

The Commission also adopted a policy allowing employees who have exceeded the maximum sick leave to take the excess and deposit twenty five percent of this excess into the employee's retirement account. The calculation for the excess is to be performed on January 1 of each year. The sick leave pension cost for the years ended December 31, 2015 and 2014 was \$6,165 and \$5,913, respectively.

NOTE 5 – NOTES PAYABLE - KENTUCKY INFRASTRUCTURE AUTHORITY

The Commission entered into a conditional loan commitment in 1995 with the Kentucky Infrastructure Authority to borrow funds for two waterline projects, totaling \$833,000. This loan was paid off during the year ended December 31, 2014.

The Commission entered into a conditional loan commitment in 2001 with the Kentucky Infrastructure Authority to borrow funds for the North Corbin sewer upgrade project in the amount of \$300,000. The loan bears interest at the rate of 2%. The loan shall be repaid over a period of 20 years from the date the loan is closed. Beginning in December of 2001, payments became due semi-annually on June 1 and December 1. A loan servicing fee of two-tenths of one percent of the annual outstanding loan balance shall be payable to the Authority as part of each interest payment. Annual revenues equaling ten percent of the annual debt service on this loan shall be set aside in the repairs and maintenance fund until such fund has a balance equal to five percent of the original loan amount. The Commission is in compliance with these requirements.

There were no new loans with the Kentucky Infrastructure Authority during 2015 or 2014. The Commission's Kentucky Infrastructure Authority notes payable at December 31, 2015 and 2014 are as follows:

<u>KIA Loan</u>	<u>Balance</u> <u>1-1-14</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12-31-14</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>12-31-15</u>
B291-12	\$ 54,005	\$ (54,005)	\$ -	\$ -	\$ -
B96-03	78,265	(16,792)	61,473	(17,129)	44,344
Total	<u>\$ 132,270</u>	<u>\$ (70,797)</u>	<u>\$ 61,473</u>	<u>\$ (17,129)</u>	<u>\$ 44,344</u>

Aggregate maturities required at December 31, 2015 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 17,473	\$ 800	\$ 18,273
2017	17,825	449	18,274
2018	9,046	90	9,136
Total	<u>\$ 44,344</u>	<u>\$ 1,339</u>	<u>\$ 45,683</u>

CITY UTILITIES COMMISSION
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2015

NOTE 6 – MORTGAGE PAYABLE – HOMETOWN BANK

On December 10, 2015, the Commission renewed the promissory note to Hometown Bank in the amount of \$1,371,664. Eleven regular monthly payments in the amount of \$12,072, including interest at 3.45%, are due commencing January 10, 2016, with the final payment being due on December 10, 2016 for all principal and accrued interest not yet paid.

The Commission's Hometown Bank mortgage payable at December 31, 2015 and 2014 is as follows:

Balance <u>1-1-14</u>	Principal <u>Payments</u>	Balance <u>12-31-14</u>	Principal <u>Payments</u>	Balance <u>12-31-15</u>
\$ 1,560,918	\$ (92,252)	\$ 1,468,666	\$ (97,002)	\$ 1,371,664

This fixed rate nondisclosable loan to a government entity is secured by the property acquired.

NOTE 7 – DEFERRED COMPENSATION

The Commission has adopted a deferred compensation plan under section 457 of the Internal Revenue Code. The plan provides, in part, that an employee can set aside up to one hundred percent of their yearly salary, up to a maximum of \$18,000 and \$17,500 for the years ended December 31, 2015 and 2014, respectively. The money becomes available to the employee upon retirement or upon termination of his employment with the Commission. These funds are held in individual trust accounts on behalf of the employees.

NOTE 8 – RESTRICTED ASSETS, RESTRICTED LIABILITIES AND RESTRICTED NET POSITION

The restricted assets consist of cash and certificates of deposit owned by the Commission that are restricted to use by ordinance, external parties, or by board designation. The restricted liabilities consist of customer deposits and debt service requirements that are restricted by ordinance, external parties, or by board designation. The restricted accounts at December 31, 2015 and 2014, respectively, are as follows:

	<u>2015</u>	<u>2014</u>
Restricted assets		
Cash in bank	\$ 445,317	\$ 412,616
Certificates of deposit	650,000	650,000
Total restricted assets	1,095,317	1,062,616
Restricted liabilities		
Debt service	-	-
Customer deposits	(934,198)	(917,307)
Total restricted liabilities	(934,198)	(917,307)
Restricted net position	\$ 161,119	\$ 145,309

CITY UTILITIES COMMISSION
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2015

NOTE 8 – RESTRICTED ASSETS, RESTRICTED LIABILITIES AND RESTRICTED NET POSITION
(CONTINUED)

The restricted net position at December 31, 2015 and 2014, respectively, is as follows:

	<u>2015</u>	<u>2014</u>
Customer deposits	\$ 90,315	\$ 74,611
Construction	55,804	55,698
Debt service	15,000	15,000
	<u>\$ 161,119</u>	<u>\$ 145,309</u>

NOTE 9 – PENSION PLAN

The Commission has adopted a defined contribution pension plan covering all employees with one year of service and who have attained the minimum age of 21. The Commission's plan requires a seven year graded vesting until 100% is vested. Including administrative and investment fees, the pension cost for the years ended December 31, 2015 and 2014 was \$155,868 and \$158,744, respectively. The Commission also has a 401(A) money purchase plan for employees to participate in, subject to certain restrictions. These accounts are administered and held by independent trustees on behalf of the Commission.

NOTE 10 – CONTRIBUTIONS TO THE CITY OF CORBIN, KENTUCKY

The contributions to the City consist of the following:

	<u>2015</u>	<u>2014</u>
Transfers to the City for general use	\$ 308,487	\$ 314,077
Transfers for Industrial Commission	7,500	7,500
Transfers for Recreation Department	27,000	27,000
Transfers for garbage	30,084	30,084
Utility services contributed:		
Billed	109,588	117,750
Unbilled	247,856	246,629
Total	<u>\$ 730,515</u>	<u>\$ 743,040</u>

NOTE 11 – POSTEMPLOYMENT BENEFITS

The Commission does not provide postemployment benefits other than pension benefits, as described in Note 9.

NOTE 12 – IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

The Accounting Standards require that a test for impairment be made when events or changes in circumstances indicate that the carrying values of long-lived assets may not be recoverable. The test is a comparison of the carrying values with the expected future undiscounted cash flows generated by the assets. The results of our tests disclosed no instances of impairment that are required to be reported under this standard.

CITY UTILITIES COMMISSION
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2015

NOTE 13 – CONTINGENCIES

A summary of the contingencies and unasserted claims is as follows:

- 1) In the normal course of operations, the City Utilities Commission receives grant funds from various federal and state agencies. The grant programs are subject to audits by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits, is not deemed to be material.

There has been no provision for any contingencies in the accompanying financial statements.

NOTE 14 – OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Accounting Standards require disclosure of information about financial instruments for which risk could exceed amounts reflected in the financial statements and information about significant geographic, industry, or other concentrations of credit risk for all financial instruments. We noted no additional items that needed to be disclosed.

NOTE 15 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the Commission also carries commercial insurance for all other risks of loss such as workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the Commission at risk for a substantial loss (contingency). There were no instances of noncompliance noted.

NOTE 16 – SUBSEQUENT EVENTS

We evaluated events and transactions that occurred after the balance sheet date as potential subsequent events. We performed this evaluation through March 15, 2016, the date on which we issued our financial statements.

CITY UTILITIES COMMISSION
Corbin, Kentucky

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – BUDGET AND ACTUAL
Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Favorable or (Unfavorable)
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES				
Sales and service charges	\$ 10,650,000	\$ 10,650,000	10,509,722	\$ (140,278)
Penalties	118,000	118,000	119,773	1,773
Other operating revenues	<u>355,000</u>	<u>355,000</u>	<u>373,525</u>	<u>18,525</u>
Total operating revenues	<u>11,123,000</u>	<u>11,123,000</u>	<u>11,003,020</u>	<u>(119,980)</u>
PRODUCTION, TRANSMISSION, TREATMENT, DISTRIBUTION AND COLLECTION EXPENSES				
Production, transmission and treatment	6,492,000	6,492,000	6,026,461	465,539
Distribution and collection	1,448,500	1,448,500	1,577,837	(129,337)
Depreciation	1,214,000	1,214,000	1,281,186	(67,186)
Transportation	77,000	77,000	57,582	19,418
Customer accounting and collection	<u>298,000</u>	<u>298,000</u>	<u>312,156</u>	<u>(14,156)</u>
Total production, transmission, treatment, distribution and collection expenses	<u>9,529,500</u>	<u>9,529,500</u>	<u>9,255,222</u>	<u>274,278</u>
Income (loss) from operations before general and administrative expenses	<u>1,593,500</u>	<u>1,593,500</u>	<u>1,747,798</u>	<u>154,298</u>
GENERAL AND ADMINISTRATIVE EXPENSES				
Salaries and wages	220,000	220,000	216,718	3,282
Office supplies and expenses	35,000	35,000	36,467	(1,467)
Credit card fees	-	-	12,669	(12,669)
Utilities and telephone	36,000	36,000	32,015	3,985
Outside services employed	20,000	20,000	40,086	(20,086)
Insurance	375,000	375,000	412,512	(37,512)
Employee benefits	125,000	125,000	119,449	5,551
Janitorial services and supplies	17,000	17,000	17,818	(818)
Maintenance and repairs	20,000	20,000	28,068	(8,068)
Depreciation	118,000	118,000	207,751	(89,751)
Bad debts	18,000	18,000	18,778	(778)
Bank service charges	500	500	114	386
Pension plan	-	-	155,868	(155,868)
Sick leave pension plan	-	-	6,165	(6,165)
Miscellaneous	<u>20,000</u>	<u>20,000</u>	<u>15,692</u>	<u>4,308</u>
Total general and administrative expenses	<u>1,004,500</u>	<u>1,004,500</u>	<u>1,320,170</u>	<u>(315,670)</u>
Income (loss) from operations	<u>589,000</u>	<u>589,000</u>	<u>427,628</u>	<u>(161,372)</u>

CITY UTILITIES COMMISSION
Corbin, Kentucky

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – BUDGET AND ACTUAL
(CONTINUED)
Year Ended December 31, 2015

	Budgeted Amounts		<u>Actual</u>	Variance with Final Budget Favorable or (Unfavorable)
	<u>Original</u>	<u>Final</u>		
NONOPERATING REVENUES (EXPENSES)				
State grant monies	-	-	214,747	\$ 214,747
Contributions of infrastructure assets	-	-	270,000	270,000
Interest income	18,000	18,000	18,590	590
Gain (loss) on sale of inventory/property	3,800	3,800	3,879	79
Contributions in lieu of taxes	(3,400)	(3,400)	(3,394)	6
Interest expense – customer deposits	(1,080)	(1,080)	(1,017)	63
Interest expense – mortgage	(50,000)	(50,000)	(48,063)	1,937
Interest expense – construction funds	(1,144)	(1,144)	(1,116)	28
Total operating revenues	<u>(33,824)</u>	<u>(33,824)</u>	<u>453,626</u>	<u>487,450</u>
 Income (loss) before operating transfers	 555,176	 555,176	 881,254	 326,078
OPERATING TRANSFERS IN (OUT)				
Transfers to City of Corbin	<u>(744,805)</u>	<u>(744,805)</u>	<u>(730,515)</u>	<u>14,290</u>
 Change in net position	 (189,629)	 (189,629)	 150,739	 340,368
Net position, beginning of year	<u>41,304,791</u>	<u>41,304,791</u>	<u>41,304,791</u>	<u>-</u>
Net position, end of year	<u>\$41,115,162</u>	<u>\$41,115,162</u>	<u>\$41,455,530</u>	<u>\$ 340,368</u>

CITY UTILITIES COMMISSION
Corbin, Kentucky

SCHEDULES OF OPERATING REVENUES AND PRODUCTION, TRANSMISSION,
DISTRIBUTION AND OTHER EXPENSES – ELECTRIC DEPARTMENT
December 31,

	<u>2015</u>		<u>2014</u>	
	<u>Amount</u>	Per 1,000 kWh	<u>Amount</u>	Per 1,000 kWh
Kilowatt hours sold (in thousands)	72,606		73,999	
OPERATING REVENUES				
Sales	\$6,374,423	\$ 87.80	\$6,279,018	\$ 84.85
Penalties	70,394	.97	69,815	.95
Other operating revenues	148,426	2.04	140,306	1.90
Total operating revenues	6,593,243	90.81	6,489,139	87.70
PRODUCTION, TRANSMISSION, DISTRIBUTION AND OTHER EXPENSES				
PRODUCTION EXPENSES				
Purchased power	4,718,515	64.99	5,180,143	70.00
TRANSMISSION EXPENSES				
Supervision and labor	22,276	.30	23,372	.32
Transmission lines	1,901	.03	8,593	.12
Total transmission expenses	24,177	.33	31,965	.44
DISTRIBUTION EXPENSES				
Supervision and labor	115,611	1.59	100,382	1.36
Operating supplies and expenses	96,864	1.33	81,615	1.10
Maintenance of lines, transformers and meters	231,577	3.19	240,184	3.25
Maintenance of sub-stations	15,826	.22	8,379	.11
Maintenance of power operated equipment	4,081	.06	675	.01
Street lighting and signal system expenses	15,667	.22	15,656	.21
Total distribution expenses	479,626	6.61	446,891	6.04
OTHER EXPENSES				
Depreciation	54,090	.75	59,466	.80
Transportation	20,585	.28	36,809	.50
Customer accounting and collection	85,125	1.17	80,416	1.09
Total other expenses	159,800	2.20	176,691	2.39
Total production, transmission, distribution and other expenses	5,382,118	74.13	5,835,690	78.87
Net operating revenues	\$1,211,125	\$ 16.68	\$ 653,449	\$ 8.83

CITY UTILITIES COMMISSION
Corbin, Kentucky

SCHEDULES OF OPERATING REVENUES AND PRODUCTION,
DISTRIBUTION AND OTHER EXPENSES – WATER DEPARTMENT
December 31,

	<u>2015</u>		<u>2014</u>	
	<u>Amount</u>	Per 1,000 <u>Gallons</u>	<u>Amount</u>	Per 1,000 <u>Gallons</u>
Gallons sold (in thousands)	<u>854,172</u>		<u>878,445</u>	
OPERATING REVENUES				
Sales	\$2,438,594	\$ 2.86	\$2,445,744	\$ 2.78
Penalties	29,222	.03	27,964	.03
Other operating revenues	<u>196,507</u>	<u>.23</u>	<u>197,146</u>	<u>.23</u>
Total operating revenues	<u>2,664,323</u>	<u>3.12</u>	<u>2,670,854</u>	<u>3.04</u>
PRODUCTION, DISTRIBUTION AND OTHER EXPENSES				
PRODUCTION EXPENSES				
Supervision and labor	174,144	.21	164,741	.19
Operating supplies and expenses	71,466	.08	26,886	.03
Lab costs	45,868	.05	52,069	.06
Fuel/power for pumping	184,263	.22	153,095	.17
Chemicals	292,654	.34	336,344	.38
Maintenance of plant and equipment	<u>171,372</u>	<u>.20</u>	<u>138,442</u>	<u>.16</u>
Total production expenses	<u>939,767</u>	<u>1.10</u>	<u>871,577</u>	<u>.99</u>
DISTRIBUTION EXPENSES				
Supervision and labor	109,231	.13	117,039	.13
Operating supplies and expenses	26,188	.03	21,319	.03
Maintenance of lines, meters and hydrants	556,432	.65	262,654	.30
Maintenance of storage and plant	419	-	233	-
Maintenance of power operated equipment	<u>22,526</u>	<u>.03</u>	<u>34,964</u>	<u>.04</u>
Total distribution expenses	<u>714,796</u>	<u>.84</u>	<u>436,209</u>	<u>.50</u>
OTHER EXPENSES				
Depreciation	645,790	.75	628,105	.72
Transportation	19,636	.02	21,338	.02
Customer accounting and collection	<u>134,602</u>	<u>.16</u>	<u>126,574</u>	<u>.14</u>
Total other expenses	<u>800,028</u>	<u>.93</u>	<u>776,017</u>	<u>.88</u>
Total production, distribution and other expenses	<u>2,454,591</u>	<u>2.87</u>	<u>2,083,803</u>	<u>2.37</u>
Net operating revenues	<u>\$ 209,732</u>	<u>\$.25</u>	<u>\$ 587,051</u>	<u>\$.67</u>

CITY UTILITIES COMMISSION
Corbin, Kentucky

SCHEDULES OF OPERATING REVENUES AND TREATMENT,
COLLECTION AND OTHER EXPENSES – WASTEWATER DEPARTMENT
December 31,

	<u>2015</u>		<u>2014</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
OPERATING REVENUES				
Service charges	\$ 1,696,705	97.2%	\$ 1,701,617	97.4%
Penalties	20,157	1.2	19,935	1.2
Other operating revenues	<u>28,592</u>	<u>1.6</u>	<u>25,099</u>	<u>1.4</u>
Total operating revenues	<u>1,745,454</u>	<u>100.0</u>	<u>1,746,651</u>	<u>100.0</u>
TREATMENT, COLLECTION AND OTHER EXPENSES				
TREATMENT EXPENSES				
Supervision and labor	146,692	8.4	143,436	8.2
Operating supplies and expenses	26,826	1.5	15,880	.9
Lab costs	36,554	2.1	33,342	1.9
Fuel/power for pumping	69,825	4.0	74,108	4.2
Chemicals	16,038	.9	8,959	.5
Maintenance of equipment	<u>48,067</u>	<u>2.8</u>	<u>62,121</u>	<u>3.6</u>
Total treatment expenses	<u>344,002</u>	<u>19.7</u>	<u>337,846</u>	<u>19.3</u>
COLLECTION EXPENSES				
Supervision and labor	29,694	1.7	32,379	1.9
Operating supplies and expenses	22,951	1.3	10,976	.6
Fuel/power for pumping	92,650	5.3	101,235	5.8
Maintenance of lines	92,701	5.3	70,550	4.0
Maintenance of equipment	<u>145,419</u>	<u>8.4</u>	<u>109,340</u>	<u>6.3</u>
Total collection expenses	<u>383,415</u>	<u>22.0</u>	<u>324,480</u>	<u>18.6</u>
OTHER EXPENSES				
Depreciation	581,306	33.3	513,582	29.4
Transportation	17,361	1.0	20,145	1.1
Customer accounting and collection	<u>92,429</u>	<u>5.3</u>	<u>86,821</u>	<u>5.0</u>
Total other expenses	<u>691,096</u>	<u>39.6</u>	<u>620,548</u>	<u>35.5</u>
Total treatment, collection and other expenses	<u>1,418,513</u>	<u>81.3</u>	<u>1,282,874</u>	<u>73.4</u>
Net operating revenues	<u>\$ 326,941</u>	<u>18.7%</u>	<u>\$ 463,777</u>	<u>26.6%</u>

CITY UTILITIES COMMISSION
Corbin, Kentucky

SCHEDULES OF PRODUCTION DATA
December 31,

	2015		
	Electric (Thousand kWh)	Water (Thousand Gallons)	<u>Wastewater</u>
Purchased and produced	<u>82,728</u>	<u>972,909</u>	
Units accounted for:			
Metered sales during year	72,606	854,172	
Consumption by:			
City Utilities Commission	4,391	28,111	
City of Corbin	<u>1,968</u>	<u>119</u>	
Total	<u>78,965</u>	<u>882,402</u>	
Units unaccounted for	<u>3,763</u>	<u>90,507</u>	
Percentage unaccounted for	<u>4.55%</u>	<u>9.30%</u>	
Number of metered customers at end of year	<u>4,082</u>	<u>6,465</u>	<u>4,416</u>

	<u>2014</u>		
	<u>Electric</u> <u>(Thousand</u> <u>kWh)</u>	<u>Water</u> <u>(Thousand</u> <u>Gallons)</u>	<u>Wastewater</u>
Purchased and produced	<u>83,928</u>	<u>969,483</u>	
Units accounted for:			
Metered sales during year	73,999	878,445	
Consumption by:			
City Utilities Commission	4,545	36,379	
City of Corbin	<u>2,056</u>	<u>491</u>	
Total	<u>80,600</u>	<u>915,315</u>	
Units unaccounted for	<u>3,328</u>	<u>54,168</u>	
Percentage unaccounted for	<u>3.96%</u>	<u>5.59%</u>	
Number of metered customers at end of year	<u>4,078</u>	<u>6,415</u>	<u>4,407</u>

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INDEPENDENT AUDITOR'S 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

March 15, 2016

Members of the Board
City Utilities Commission
Corbin, Kentucky

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the City Utilities Commission, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated March 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission'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 the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 Commission's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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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 not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission'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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marr, Miller & Myers, PSC

Certified Public Accountants