

**CITY UTILITIES COMMISSION**  
**Corbin, Kentucky**

**REPORT OF AUDIT**  
**December 31, 2012 and 2011**

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# **Marr, Miller & Myers, PSC**

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P.O. Box 663  
Corbin, Kentucky 40702

## **INDEPENDENT AUDITOR'S REPORT**

March 29, 2013

City Utilities Commission  
Corbin, Kentucky

We have audited the accompanying financial statements of the business-type activities and the remaining fund information of the City Utilities Commission as of and for the years ended December 31, 2012 and 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### **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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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.

## **Marr, Miller & Myers, PSC**

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 and the remaining fund information of the City Utilities Commission as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

### **Other-Matter**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City Utilities Commission's financial statements as a whole. The Departmental Schedules of Operating Revenues and Expenses, Schedule of Property, Plant, Equipment and Depreciation and Schedules of Production Data are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*Marr, Miller & Myers, PSC*

Certified Public Accountants

CITY UTILITIES COMMISSION  
Corbin, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012

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, 2012 and 2011. 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.

**GENERAL MANAGER'S COMMENTS**

The electric industry continues to change as CUC's wholesale power provider Kentucky Utilities Company (KU) invests in new generation facilities and environmental upgrades at existing facilities, and plans to shut down older facilities that do not meet environmental requirements and are not feasible to upgrade. Many electric generators, including KU, are planning to construct combustion gas turbine generation facilities to replace coal fired generation facilities. The increased capital expenditures have and will increase CUC's wholesale power cost, which will have to be passed on to CUC's electric customers. CUC's average wholesale power cost in 2012 was \$0.0616/kilowatt hour (kWh); \$0.0599/kWh in 2011; \$0.0568/kWh in 2010; \$0.0522/kWh in 2009; \$0.0492/kWh in 2008; \$0.0449/kWh in 2007; \$0.0417/kWh in 2006; and \$0.0406/kWh in 2005. The increases are passed on to CUC's electric customers.

The 2011 Sanitary Sewer Rehabilitation Project was completed in 2012 with a construction and engineering cost of \$1,460,446. CUC has spent \$4,693,440 from 1998 through 2012 on sanitary sewer rehabilitation projects. Improvement in flows has been seen, but there is still a tremendous amount of water getting into the sanitary sewer collection system. GRW Engineers, Inc. personnel are preparing a preliminary engineering report to upgrade the flow to the wastewater treatment plant to handle the increased flows due to infiltration/inflow. The preliminary estimate for this project is \$9,184,115.00, and funding for the project has been applied for through the state clean water revolving loan fund.

The wastewater treatment plant trickling filter mercury abatement project was completed in 2012 for a total project cost of \$265,370.

These two projects increased the wastewater (sewer) department expenditures in 2012, and along with the decrease in electric revenues are the major reasons for the negative change in assets for 2012. There has also been a decrease in water consumption over the last few years, mainly from the wholesale water customers (CUC sells wholesale to three (3) water districts).

CUC has engaged a consultant to perform a financial analysis of the electric, water and wastewater departments to prepare for a revision of CUC's rates charged its customers. CUC's rates will be changed in early 2013. A public hearing is required per the Kentucky Revised Statutes that govern CUC before the rates are increased.

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  
Corbin, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012

**2012 FINANCIAL HIGHLIGHTS**

- Total operating revenues decreased \$173,269 or 1.69% from the prior year. The decrease is primarily due to extensive sewer rehabilitation and mercury removal expenditures, as well as lower revenues received from electric sales to customers during the year.
- Production, transmission, treatment, distribution and collection expenses increased \$419,442 or 4.92% from the prior year. The increase was primarily due to the expenditures related to the wastewater collection system rehabilitation project and general line maintenance.
- Nonoperating revenues (expenses) decreased \$365,437 from the prior year. State grant monies received and expended on 2012 projects saw a decrease of funding in the amount of \$110,645 from the prior year.
- Operating transfers to the City of Corbin increased \$23,340 from the prior year.
- Total assets decreased \$929,628 and total liabilities decreased \$194,136, resulting in total net assets decreasing \$735,492 or 1.76% 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 assets present information on all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets present information showing how the Commission's net assets changed during the years. 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 these statements for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the Commission that are principally supported by utility customers in the Corbin area. The business-type activities of the Commission are to provide utility services to customers.

The government-wide financial statements can be found on pages 8 through 12 of this report.

CITY UTILITIES COMMISSION  
Corbin, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012

**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 financial statements can be found on pages 13 through 21 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve, over time, as a useful indicator of the Commission's financial position. In the case of the Commission, assets exceeded liabilities by \$41,080,837 as of December 31, 2012. This is a current year net decrease of \$735,492, which includes the net activity for contributions from governmental units and subdividers in the amount of \$(18,137) and \$(67,338), respectively.

The largest portion of the Commission's net assets are capital assets, net of depreciation, of \$39,072,935, cash and cash equivalents of \$1,986,977 and investments of \$2,416,659.

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 Assets for the Year Ending December 31, 2012 and 2011**

The Statement of Net Assets includes all of the Commission's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Commission.

	<u>2012</u>	<u>2011</u>
Current assets	\$ 6,130,738	\$ 6,584,459
Noncurrent assets	<u>39,072,935</u>	<u>39,548,842</u>
Total Assets	<u>45,203,673</u>	<u>46,133,301</u>
Current liabilities	3,990,566	3,826,267
Noncurrent liabilities	<u>132,270</u>	<u>490,705</u>
Total Liabilities	<u>4,122,836</u>	<u>4,316,972</u>
Net assets		
Invested in capital assets, net of related debt	37,221,117	37,246,613
Unrestricted	3,635,324	3,893,817
Restricted	<u>224,396</u>	<u>675,899</u>
Total Net Assets	<u>\$ 41,080,837</u>	<u>\$ 41,816,329</u>
Restricted net assets consists of the following:		
Customer deposits	\$ 88,309	\$ 67,778
Construction	139,807	515,130
Debt service	<u>(3,720)</u>	<u>92,991</u>
Total restricted net assets	<u>\$ 224,396</u>	<u>\$ 675,899</u>

CITY UTILITIES COMMISSION  
Corbin, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012

**REVENUE AND EXPENDITURES SUMMARY**

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

	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Operating revenues:				
Sales and service charges	\$ 9,665,272	95.63%	\$ 9,850,995	95.82%
Penalties	103,492	1.02	110,175	1.07
Other operating revenues	<u>338,334</u>	<u>3.35</u>	<u>319,197</u>	<u>3.11</u>
Total operating revenues	10,107,098	100.00	10,280,367	100.00
 Production, transmission, treatment, distribution and collection expenses	<u>(8,941,389)</u>	<u>(88.47)</u>	<u>(8,521,947)</u>	<u>(82.90)</u>
 Net operating revenues	1,165,709	11.53	1,758,420	17.10
 General and administrative expenses	<u>(1,094,700)</u>	<u>(10.83)</u>	<u>(1,036,519)</u>	<u>(10.08)</u>
 Income (loss) from operations	71,009	.70	721,901	7.02
 Nonoperating revenues (expenses)	<u>(125,247)</u>	<u>(1.24)</u>	<u>240,190</u>	<u>2.34</u>
 Income (loss) before operating transfers	(54,238)	(.54)	962,091	9.36
 Operating transfers – City of Corbin	<u>(681,254)</u>	<u>(6.74)</u>	<u>(657,914)</u>	<u>(6.40)</u>
 Change in net assets	<u>\$ (735,492)</u>	<u>(7.28)%</u>	<u>\$ 304,177</u>	<u>2.96%</u>

**OVERALL OPERATIONS – COMPARISON BY DEPARTMENTS**

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Electric			
Operating revenues	\$ 5,988,320	\$ 6,167,752	\$ (179,432)
Production, transmission, distribution and other expenses	<u>(5,397,367)</u>	<u>(5,341,007)</u>	<u>(56,360)</u>
Net operating revenues	<u>\$ 590,953</u>	<u>\$ 826,745</u>	<u>\$ (235,792)</u>
 Water			
Operating revenues	\$ 2,506,459	\$ 2,518,102	\$ (11,643)
Production, distribution and other expenses	<u>(1,789,474)</u>	<u>(2,076,796)</u>	<u>287,322</u>
Net operating revenues	<u>\$ 716,985</u>	<u>\$ 441,306</u>	<u>\$ 275,679</u>



CITY UTILITIES COMMISSION  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Wastewater			
Operating revenues	\$ 1,612,319	\$ 1,594,513	\$ 17,806
Treatment, collection and other expenses	<u>(1,754,548)</u>	<u>(1,104,144)</u>	<u>(650,404)</u>
Net operating revenues	<u>\$ (142,229)</u>	<u>\$ 490,369</u>	<u>\$ (632,598)</u>

**PRODUCTION DATA – COMPARISON BY DEPARTMENTS**

	<u>2012</u>	<u>2011</u>
Electric		
Units (in thousand KWH) purchased and produced	83,316	86,412
Units accounted for	<u>(77,769)</u>	<u>(82,890)</u>
Unaccounted units	<u>5,547</u>	<u>3,522</u>
Percentage unaccounted for	<u>6.66%</u>	<u>4.08%</u>
Number of metered customers at year end	<u>4,064</u>	<u>4,040</u>
Water		
Units (in thousand gallons) purchased and produced	1,059,488	1,087,087
Units accounted for	<u>(965,221)</u>	<u>(972,747)</u>
Unaccounted units	<u>94,267</u>	<u>114,340</u>
Percentage unaccounted for	<u>8.90%</u>	<u>10.52%</u>
Number of metered customers at year end	<u>6,428</u>	<u>6,413</u>
Wastewater		
Number of metered customers at year end	<u>4,391</u>	<u>4,372</u>

**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 ASSETS  
December 31,

ASSETS

	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,986,977	\$ 1,873,189
Investments	2,416,659	3,109,579
Accounts receivable	818,505	824,141
Unbilled accounts receivable – estimated	472,954	368,837
Other receivables	60,763	109,965
Material and supplies inventory	309,748	244,918
Prepaid insurance	65,132	53,830
Total current assets	<u>6,130,738</u>	<u>6,584,459</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, net	<u>39,072,935</u>	<u>39,548,842</u>
Total noncurrent assets	<u>39,072,935</u>	<u>39,548,842</u>
<b>TOTAL ASSETS</b>	<u>45,203,673</u>	<u>46,133,301</u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	1,336,927	1,101,855
Accrued compensated absences	68,908	66,901
Notes payable – Kentucky Infrastructure Authority	68,933	67,119
Revenue bonds payable	-	7,000
Mortgage payable – Hometown Bank	1,650,615	1,737,405
Customer deposits	865,183	845,987
Total current liabilities	<u>3,990,566</u>	<u>3,826,267</u>
<b>NONCURRENT LIABILITIES</b>		
Notes payable – Kentucky Infrastructure Authority	132,270	201,205
Revenue bonds payable	-	289,500
Total noncurrent liabilities	<u>132,270</u>	<u>490,705</u>
<b>TOTAL LIABILITIES</b>	<u>4,122,836</u>	<u>4,316,972</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	37,221,117	37,246,613
Unrestricted	3,635,324	3,893,817
Restricted	224,396	675,899
<b>TOTAL NET ASSETS</b>	<u>\$ 41,080,837</u>	<u>\$ 41,816,329</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 ASSETS  
Years Ended December 31,

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Sales and service charges	\$ 9,665,272	\$ 9,850,995
Penalties	103,492	110,175
Other operating revenues	338,334	319,197
Total operating revenues	<u>10,107,098</u>	<u>10,280,367</u>
<b>PRODUCTION, TRANSMISSION, TREATMENT, DISTRIBUTION AND COLLECTION EXPENSES</b>		
Production, transmission and treatment	6,042,551	6,089,490
Distribution and collection	1,790,828	1,317,111
Depreciation	730,875	744,901
Transportation	94,022	97,149
Customer accounting and collection	<u>283,113</u>	<u>273,296</u>
Total production, transmission, treatment, distribution and collection expenses	<u>8,941,389</u>	<u>8,521,947</u>
Income (loss) from operations before general and administrative expenses	<u>1,165,709</u>	<u>1,758,420</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Salaries and wages	213,763	206,763
Office supplies and expenses	29,187	29,744
Utilities and telephone	29,634	30,099
Outside services employed	19,501	21,516
Insurance	335,603	323,443
Employee benefits	121,340	122,749
Janitorial services and supplies	15,401	15,988
Maintenance and repairs	17,607	14,313
Depreciation	117,197	69,239
Bad debts	10,069	17,333
Bank service charges	503	635
Pension plan	158,604	153,317
Sick leave pension plan	5,861	5,480
Miscellaneous	<u>20,430</u>	<u>25,900</u>
Total general and administrative expenses	<u>1,094,700</u>	<u>1,036,519</u>
Income (loss) from operations	<u>71,009</u>	<u>721,901</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 ASSETS (CONTINUED)  
Years Ended December 31,

	<u>2012</u>	<u>2011</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State grant monies received	391,026	501,671
Amount expended – sanitary sewer extensions and water lines	(391,026)	(501,671)
Interest income	29,914	37,972
Dividends	1,898	-
Gain (loss) on sale of inventory/property	9,005	241,347
Contributions in lieu of taxes	(3,191)	(3,144)
Interest expense – customer deposits	(8,939)	(14,481)
Interest expense – other	(40)	-
Interest expense – mortgage	(58,294)	-
Interest expense – revenue bonds	(3,985)	(13,473)
Interest expense – construction funds	(6,140)	(8,031)
Net activity – contributions from governmental units	(18,137)	81,845
Net activity – contributions from subdividers	(67,338)	(139,609)
Total nonoperating revenues (expenses)	<u>(125,247)</u>	<u>182,426</u>
Income (loss) before operating transfers	(54,238)	904,327
<b>OPERATING TRANSFERS IN (OUT)</b>		
Transfers to City of Corbin	<u>(681,254)</u>	<u>(657,914)</u>
Change in net assets	(735,492)	246,413
Net assets, beginning of year	<u>41,816,329</u>	<u>41,569,916</u>
Net assets, end of year	<u>\$ 41,080,837</u>	<u>\$ 41,816,329</u>

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

CITY UTILITIES COMMISSION  
Corbin, Kentucky

STATEMENTS OF CASH FLOWS  
Years Ended December 31,

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 10,057,819	\$ 10,428,766
Cash payments for production, transmission, treatment, distribution and collection expenses	(8,706,317)	(8,176,435)
Cash payments for general and administrative expenses	(301,557)	(969,757)
Net cash provided (used) by operating activities	<u>1,049,945</u>	<u>1,282,574</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers to City of Corbin	(681,254)	(657,914)
Contributions in lieu of taxes	(3,191)	(3,144)
Net cash provided (used) by noncapital financing activities	<u>(684,445)</u>	<u>(661,058)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(858,988)	(224,889)
Expended for construction in progress	(62,678)	(1,008,720)
Proceeds from sale of inventory/property	9,005	235,500
Contributions from subdividers	73,000	-
Principal payments on KIA loans	(67,121)	(65,354)
Retirement of bonds	(296,500)	(7,000)
Principal payments on mortgage payable – Hometown Bank	(86,790)	(84,226)
Interest expense	(77,398)	(35,985)
Net cash provided (used) by capital and related financing activities	<u>(1,367,470)</u>	<u>(1,190,674)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipt of state grant monies	391,026	501,671
Interest on cash and investments	29,914	37,972
Dividends	1,898	-
Net proceeds (purchases) – investment securities	692,920	87,283
Net cash provided (used) by investing activities	<u>1,115,758</u>	<u>626,926</u>
 Net increase (decrease) in cash and cash equivalents	 113,788	 57,768
Cash and cash equivalents, beginning of year	<u>1,873,189</u>	<u>1,815,421</u>
Cash and cash equivalents, end of year	<u>\$ 1,986,977</u>	<u>\$ 1,873,189</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>2012</u>	<u>2011</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Income (loss) from operations	\$ 71,009	\$ 721,901
ADJUSTMENTS TO RECONCILE INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation	848,072	814,140
Provision for doubtful accounts	(737)	(461)
Changes in net assets and liabilities:		
(Increase) decrease in accounts receivable	6,373	103,906
(Increase) decrease in unbilled accounts receivable	(104,117)	62,968
(Increase) decrease in other receivables	49,202	(18,014)
(Increase) decrease in material and supplies inventory	(64,830)	11,806
(Increase) decrease in prepaid insurance	(11,302)	(8,657)
Increase (decrease) in accounts payable and accrued expenses	235,072	(442,065)
Increase (decrease) in accrued compensated absences	2,007	6,180
Increase (decrease) in customer deposits	19,196	30,870
Net cash provided by (used in) operating activities	<u>\$ 1,049,945</u>	<u>\$ 1,282,574</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, 2012

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 acquire, construct, maintain and operate a combined electric, water and wastewater system for the purpose of supplying its inhabitants with such services.

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 Utility Commission 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 that affect the significant elements of the financial statements of the City Utilities Commission are summarized below:

**BASIS OF PRESENTATION**

Government-Wide Financial Statements: The statements of net assets and the statements of revenues, expenses and changes in net assets display information about the Commission as a whole. These statements include the financial activities of the Commission. The Commission only has business-type activities. The Commission is not legally required to adopt a budget, thus eliminating the requirement for presentation of budgetary comparison information.

**BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

**REVENUE RECOGNITION**

The operating revenues of the Commission consist of customer sales and service charges for utilities, penalties and other operating revenues.

**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

CITY UTILITIES COMMISSION  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**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 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 ASSETS**

Net assets represent the difference between assets and liabilities. Net assets invested 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 assets are 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



CITY UTILITIES COMMISSION  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**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 \$2,416,659 and \$3,109,579 for the years ended December 31, 2012 and 2011, 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 and 2.

CITY UTILITIES COMMISSION  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 3 – CONSTRUCTION IN PROGRESS**

The Commission is involved in an ongoing construction project for sewer line rehabilitation. A summary of construction in progress at December 31 is as follows:

	<u>2012</u>	<u>2011</u>
Wastewater/waterline extensions	\$ <u>100,820</u>	\$ <u>485,644</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 accrued 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, 2012 and 2011 was \$68,907 and \$66,901, respectively.

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, 2012 or 2011. 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, 2012 and 2011 was \$5,861 and \$5,480, respectively.

**NOTE 5 – NOTES PAYABLE - KENTUCKY INFRASTRUCTURE AUTHORITY**

The Commission entered into a conditional loan commitment with the Kentucky Infrastructure Authority to borrow funds for two waterline projects, totaling \$833,000. The loan bears interest at the rate of 2.9%. The loan shall be repaid over a period of 20 years from the date the loan is closed. Beginning in 1995, 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 depreciation/repairs and maintenance fund until such fund has a balance equal to five percent of the original loan amount.

CITY UTILITIES COMMISSION  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 5 – NOTES PAYABLE - KENTUCKY INFRASTRUCTURE AUTHORITY (CONTINUED)**

The cash or investment balance required to be accumulated is \$41,650. The amount is to be accumulated at a rate of \$460 per month until the maximum is attained, which occurred during 2001.

Aggregate maturities required at December 31, 2012 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 52,473	\$ 2,710	\$ 55,183
2014	54,005	1,179	55,184
Total	<u>\$ 106,478</u>	<u>\$ 3,889</u>	<u>\$ 110,367</u>

The Commission entered into a conditional loan commitment 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 cash or investment balance required to be accumulated is \$15,000. This amount is to be accumulated at a rate of \$152 per month until the maximum is attained, which occurred during 2005.

Aggregate maturities required at December 31, 2012 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 16,461	\$ 1,813	\$ 18,274
2014	16,792	1,482	18,274
2015	17,129	1,144	18,273
2016	17,473	800	18,273
2017	17,825	449	18,274
2018	9,046	90	9,136
Total	<u>\$ 94,726</u>	<u>\$ 5,778</u>	<u>\$ 100,504</u>

**NOTE 6 – REVENUE BONDS PAYABLE**

Under the terms of the ordinance of the City of Corbin authorizing the issuance of the Revenue Bonds dated October 27, 1994, the City Utilities Commission is required to transfer to the Sinking Fund, in equal monthly installments, such amounts as will be sufficient to pay the principal and interest requirements on the outstanding Revenue Bonds dated October 27, 1994 as they become due.

CITY UTILITIES COMMISSION  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 6 – REVENUE BONDS PAYABLE (CONTINUED)**

The City Utilities Commission was required to establish the Depreciation/Repairs and Maintenance Fund to prevent default in payment of the principal and interest on the bonds, for paying the cost of unusual repairs, renewals or replacements, and for paying the cost of construction of extensions, additions and improvements not provided from other sources. The cash or investment balance required to be accumulated, under terms of the 1994 bond ordinance mentioned above, amounted to \$22,200. The amount is to be accumulated at a rate of \$185 per month until the maximum is attained, which occurred during 2005.

A summary of revenue bonds payable at December 31 is as follows:

	<u>2012</u>	<u>2011</u>
Revenue Bonds dated October 27, 1994, maturing serially until 2034, 4.5% interest rate		
Total authorized and issued	\$ 371,000	\$ 371,000
Matured and redeemed to date	<u>(371,000)</u>	<u>(74,500)</u>
Total revenue bonds outstanding at end of year	<u>\$ -</u>	<u>\$ 296,500</u>

The revenue bonds were paid off in April 2012.

**NOTE 7 – MORTGAGE PAYABLE – HOMETOWN BANK**

The Commission borrowed \$1,997,500 as evidenced by a promissory note to Hometown Bank dated July 10, 2008 for purposes of acquiring property to relocate and build a new office complex. Four regular monthly payments in the amount of \$12,108, including interest at 4%, were due commencing August 10, 2008, with the final payment being due on December 10, 2008 for all principal and accrued interest not yet paid.

On December 10, 2008, the Commission renewed the promissory note to Hometown Bank in the amount of \$1,970,276. Eleven regular monthly payments in the amount of \$12,108, including interest at 4%, were due commencing January 10, 2009, with the final payment being due on December 10, 2009 for all principal and accrued interest not yet paid.

On December 10, 2009, the Commission renewed the promissory note to Hometown Bank in the amount of \$1,902,560. Eleven regular monthly payments in the amount of \$12,108, including interest at 3.45%, were due commencing January 10, 2010, with the final payment being due on December 10, 2010 for all principal and accrued interest not yet paid.

On December 10, 2010, the Commission renewed the promissory note to Hometown Bank in the amount of \$1,821,631. Eleven regular monthly payments in the amount of \$12,072, including interest at 3.45%, were due commencing January 10, 2011, with the final payment being due on December 10, 2011 for all principal and accrued interest not yet paid.

CITY UTILITIES COMMISSION  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 7 – MORTGAGE PAYABLE – HOMETOWN BANK (CONTINUED)**

On December 10, 2011, the Commission renewed the promissory note to Hometown Bank in the amount of \$1,737,405. Eleven regular monthly payments in the amount of \$12,072, including interest at 3.45%, were due commencing January 10, 2012, with the final payment being due on December 10, 2012 for all principal and accrued interest not yet paid.

On December 10, 2012, the Commission renewed the promissory note to Hometown Bank in the amount of \$1,650,615. Eleven regular monthly payments in the amount of \$12,072, including interest at 3.45%, are due commencing January 10, 2013, with the final payment being due on December 10, 2013 for all principal and accrued interest not yet paid.

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

**NOTE 8 – 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 \$ 17,000 for the year ended December 31, 2012 and \$16,500 for the year ended December 31, 2011. 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 9 – CONTRIBUTIONS FROM GOVERNMENTAL UNITS**

Contributions from governmental units consists of funds received for the purchase of property, plant and equipment, as well as contributions of water and wastewater lines constructed, which, upon completion, become the property of the City Utilities Commission.

A summary of changes in this account is as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 13,797,550	\$ 13,715,705
Contributions/adjustments-grant funds, water and wastewater lines	391,026	501,671
Less depreciation recorded	(409,163)	(419,826)
Balance at end of year	<u>\$ 13,779,413</u>	<u>\$ 13,797,550</u>

CITY UTILITIES COMMISSION  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 10 – CONTRIBUTIONS FROM SUBDIVIDERS**

Contributions from subdividers are water and wastewater lines constructed by subdividers, which, upon completion, become the property of the City Utilities Commission.

A summary of changes in this account is as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 3,225,254	\$ 3,364,863
Contributions/adjustments-subdividers	73,000	-
Less depreciation recorded	(140,338)	(139,609)
Balance at end of year	<u>\$ 3,157,916</u>	<u>\$ 3,225,254</u>

**NOTE 11 – 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, 2012 and 2011 was \$158,604 and \$153,317, respectively. The Commission also has a 401(A) money purchase plan for employees to participate in, subject to certain restrictions.

**NOTE 12 – CONTRIBUTIONS TO THE CITY OF CORBIN, KENTUCKY**

The contributions to the City consist of the following:

	<u>2012</u>	<u>2011</u>
Transfers to the City for general use	\$ 286,751	\$ 299,269
Transfers for Industrial Commission	7,500	7,500
Transfers for Recreation Department	12,000	27,000
Transfers for garbage	30,084	30,084
Utility services contributed:		
Billed	93,985	84,408
Unbilled	250,934	209,653
Total	<u>\$ 681,254</u>	<u>\$ 657,914</u>

**NOTE 13 – POSTEMPLOYMENT BENEFITS**

The Commission does not provide postemployment benefits other than pension benefits, as described in Note 11.

CITY UTILITIES COMMISSION  
Corbin, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 14 – 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.

**NOTE 15 – 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 16 – 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.

The Commission maintains cash and investment accounts at four banks located in Corbin, Kentucky. At December 31, 2012, the carrying amount of these accounts, excluding petty cash accounts in the amount of \$1,500, was \$4,402,136, and the bank balance (before deposits in transit and outstanding checks) was \$4,453,758. At December 31, 2011, the carrying amount of these accounts, excluding petty cash accounts in the amount of \$1,500, was \$4,981,268, and the bank balance (before deposits in transit and outstanding checks) was \$4,844,202. Accounts were properly secured by bank collateral and FDIC coverage.

**NOTE 17 – SUBSEQUENT EVENTS**

We evaluated events and transactions that occurred after the balance sheet date as potential subsequent events. We performed this evaluation through March 29, 2013, the date on which we issued our financial statements.

CITY UTILITIES COMMISSION  
Corbin, Kentucky

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

	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>Per 1,000 KWH</u>	<u>Amount</u>	<u>Per 1,000 KWH</u>
Kilowatt hours sold (in thousands)	<u>71,573</u>		<u>76,164</u>	
<b>OPERATING REVENUES</b>				
Sales	\$5,799,249	\$ 81.03	\$5,964,837	\$ 78.32
Penalties	60,736	.85	65,595	.86
Other operating revenues	<u>128,335</u>	<u>1.79</u>	<u>137,320</u>	<u>1.80</u>
Total operating revenues	<u>5,988,320</u>	<u>83.67</u>	<u>6,167,752</u>	<u>80.98</u>
<b>PRODUCTION, TRANSMISSION, DISTRIBUTION AND OTHER EXPENSES PRODUCTION EXPENSES</b>				
Purchased power	<u>4,727,509</u>	<u>66.05</u>	<u>4,645,079</u>	<u>60.99</u>
<b>TRANSMISSION EXPENSES</b>				
Supervision and labor	<u>20,175</u>	<u>.28</u>	<u>20,523</u>	<u>.27</u>
<b>DISTRIBUTION EXPENSES</b>				
Supervision and labor	97,966	1.36	86,358	1.14
Operating supplies and expenses	35,458	.50	46,499	.61
Maintenance of lines, transformers and meters	250,589	3.50	283,126	3.72
Maintenance of sub-stations	11,182	.16	18,439	.24
Maintenance of power operated equipment	7,060	.10	2,056	.03
Street lighting and signal system expenses	<u>30,145</u>	<u>.42</u>	<u>15,596</u>	<u>.20</u>
Total distribution expenses	<u>432,400</u>	<u>6.04</u>	<u>452,074</u>	<u>5.94</u>
<b>OTHER EXPENSES</b>				
Depreciation	100,696	1.41	110,180	1.44
Transportation	39,411	.55	38,638	.51
Customer accounting and collection	<u>77,176</u>	<u>1.08</u>	<u>74,513</u>	<u>.98</u>
Total other expenses	<u>217,283</u>	<u>3.04</u>	<u>223,331</u>	<u>2.93</u>
Total production, transmission, distribution and other expenses	<u>5,397,367</u>	<u>75.41</u>	<u>5,341,007</u>	<u>70.13</u>
Net operating revenues	<u>\$ 590,953</u>	<u>\$ 8.26</u>	<u>\$ 826,745</u>	<u>\$ 10.85</u>



CITY UTILITIES COMMISSION  
Corbin, Kentucky

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

	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>Per 1,000 Gallons</u>	<u>Amount</u>	<u>Per 1,000 Gallons</u>
Gallons sold (in thousands)	<u>928,194</u>		<u>936,926</u>	
<b>OPERATING REVENUES</b>				
Sales	\$2,288,811	\$ 2.47	\$2,337,485	\$ 2.50
Penalties	25,566	.03	26,822	.03
Other operating revenues	<u>192,082</u>	<u>.20</u>	<u>153,795</u>	<u>.16</u>
Total operating revenues	<u>2,506,459</u>	<u>2.70</u>	<u>2,518,102</u>	<u>2.69</u>
<b>PRODUCTION, DISTRIBUTION AND OTHER EXPENSES</b>				
<b>PRODUCTION EXPENSES</b>				
Supervision and labor	154,079	.17	171,100	.18
Operating supplies and expenses	50,755	.06	70,175	.08
Fuel or power for pumping	137,178	.15	141,073	.15
Chemicals	357,119	.38	330,715	.35
Maintenance of plant and equipment	<u>95,895</u>	<u>.10</u>	<u>395,540</u>	<u>.42</u>
Total production expenses	<u>795,026</u>	<u>.86</u>	<u>1,108,603</u>	<u>1.18</u>
<b>DISTRIBUTION EXPENSES</b>				
Supervision and labor	109,880	.11	93,260	.10
Operating supplies and expenses	23,986	.03	15,853	.02
Maintenance of lines, meters and hydrants	300,242	.32	288,619	.31
Maintenance of power operated equipment	<u>24,636</u>	<u>.03</u>	<u>37,963</u>	<u>.04</u>
Total distribution expenses	<u>458,744</u>	<u>.49</u>	<u>435,695</u>	<u>.47</u>
<b>OTHER EXPENSES</b>				
Depreciation	385,739	.42	383,233	.41
Transportation	27,575	.03	30,889	.03
Customer accounting and collection	<u>122,390</u>	<u>.13</u>	<u>118,376</u>	<u>.13</u>
Total other expenses	<u>535,704</u>	<u>.58</u>	<u>532,498</u>	<u>.57</u>
Total production, distribution and other expenses	<u>1,789,474</u>	<u>1.93</u>	<u>2,076,796</u>	<u>2.22</u>
Net operating revenues	<u>\$ 716,985</u>	<u>\$ .77</u>	<u>\$ 441,306</u>	<u>\$ .47</u>

CITY UTILITIES COMMISSION  
Corbin, Kentucky

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

	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<b>OPERATING REVENUES</b>				
Service charges	\$ 1,577,212	97.8%	\$ 1,548,673	97.1%
Penalties	17,190	1.1	17,758	1.1
Other operating revenues	17,917	1.1	28,082	1.8
Total operating revenues	<u>1,612,319</u>	<u>100.0</u>	<u>1,594,513</u>	<u>100.0</u>
<b>TREATMENT, COLLECTION AND OTHER EXPENSES</b>				
<b>TREATMENT EXPENSES</b>				
Supervision and labor	148,137	9.2	142,956	9.0
Operating supplies and expenses	227,294	14.1	43,065	2.7
Fuel or power for pumping	70,991	4.4	81,234	5.1
Chemicals	12,410	.8	11,517	0.7
Maintenance of equipment	41,009	2.5	36,513	2.3
Total treatment expenses	<u>499,841</u>	<u>31.0</u>	<u>315,285</u>	<u>19.8</u>
<b>COLLECTION EXPENSES</b>				
Supervision and labor	30,053	1.9	30,767	1.9
Operating supplies and expenses	21,481	1.3	9,463	.6
Fuel or power for pumping	82,387	5.1	99,019	6.2
Maintenance of lines	652,982	40.5	189,682	11.9
Maintenance of equipment	112,781	7.0	100,411	6.3
Total collection expenses	<u>899,684</u>	<u>55.8</u>	<u>429,342</u>	<u>26.9</u>
<b>OTHER EXPENSES</b>				
Depreciation	244,440	15.1	251,488	15.8
Transportation	27,036	1.7	27,622	1.7
Customer accounting and collection	83,547	5.2	80,407	5.0
Total other expenses	<u>355,023</u>	<u>22.0</u>	<u>359,517</u>	<u>22.5</u>
Total treatment, collection and other expenses	<u>1,754,548</u>	<u>108.8</u>	<u>1,104,144</u>	<u>69.2</u>
Net operating revenues	<u>\$ (142,229)</u>	<u>(8.8)%</u>	<u>\$ 490,369</u>	<u>30.8%</u>

CITY UTILITIES COMMISSION  
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SCHEDULE OF PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION  
December 31, 2012

	ASSETS		
	Balance 01-01-12	Additions	Balance 12-31-12
LAND AND LAND RIGHTS	\$ 1,170,548	\$ 82	\$ 1,170,630
CONSTRUCTION IN PROGRESS			
Wastewater/waterline extensions	<u>485,644</u>	<u>62,678</u>	<u>100,820</u>
ELECTRIC PLANT AND EQUIPMENT			
Sub-station and transmission	705,660	18,587	724,247
Distribution	<u>3,042,875</u>	<u>42,118</u>	<u>3,084,993</u>
Total	<u>3,748,535</u>	<u>60,705</u>	<u>3,809,240</u>
WATER PLANT AND EQUIPMENT			
Source of supply	1,017,298	2,940	1,020,238
Pumping and treatment	10,153,705	12,922	10,166,627
Transmission and distribution	<u>19,390,142</u>	<u>111,787</u>	<u>19,501,929</u>
Total	<u>30,561,145</u>	<u>127,649</u>	<u>30,688,794</u>
WASTEWATER PLANT AND EQUIPMENT			
Wastewater disposal plant	7,785,213	1,807	7,787,020
Collection lines and equipment	<u>17,835,525</u>	<u>981,622</u>	<u>18,817,147</u>
Total	<u>25,620,738</u>	<u>983,429</u>	<u>26,604,167</u>
OTHER PLANT AND EQUIPMENT			
Structures and improvements	4,470,816	2,125	4,472,941
Transportation equipment	964,465	51,022	1,015,487
Other equipment	<u>478,164</u>	<u>81,478</u>	<u>559,642</u>
Total	<u>5,913,445</u>	<u>134,625</u>	<u>6,048,070</u>
TOTALS	<u>\$ 67,500,055</u>	<u>\$ 1,369,168</u>	<u>\$ 68,421,721</u>

(A) Depreciation taken consists of \$848,072 deducted on the Statement of Revenues, Expenses, and Changes in Net Assets, \$409,163 treated as a reduction to "Contributions from Governmental Units" on the Statement of Net Assets, and \$140,338 treated as a reduction to "Contributions from Subdividers" on the Statement of Net Assets.

# ACCUMULATED DEPRECIATION

Balance 01-01-12	Depreciation Taken (A)	Deductions	Balance 12-31-12
\$ -	\$ -	\$ -	\$ -
-	-	-	-
520,108	10,320	-	530,428
2,387,577	65,149	-	2,452,726
2,907,685	75,469	-	2,983,154
877,167	6,126	-	883,293
3,638,003	229,536	-	3,867,539
8,377,151	382,300	-	8,759,451
12,892,321	617,962	-	13,510,283
4,337,812	92,498	-	4,430,310
6,624,471	408,438	-	7,032,909
10,962,283	500,936	-	11,463,219
58,930	92,052	-	150,982
786,812	85,510	-	872,322
343,182	25,644	-	368,826
1,188,924	203,206	-	1,392,130
\$ 27,951,213	\$ 1,397,573	\$ -	\$ 29,348,786

CITY UTILITIES COMMISSION  
Corbin, Kentucky

SCHEDULES OF PRODUCTION DATA  
December 31,

	2012		
	Electric (Thousand KWH)	Water (Thousand Gallons)	Wastewater
Purchased and produced	<u>83,316</u>	<u>1,059,488</u>	
Units accounted for:			
Metered sales during year	71,573	928,194	
Consumption by:			
City Utilities Commission	4,453	36,956	
City of Corbin	<u>1,743</u>	<u>71</u>	
Total	<u>77,769</u>	<u>965,221</u>	
Units unaccounted for	<u>5,547</u>	<u>94,267</u>	
Percentage unaccounted for	<u>6.66%</u>	<u>8.9%</u>	
Number of metered customers at end of year	<u>4,064</u>	<u>6,428</u>	<u>4,391</u>

	2011		
	Electric (Thousand KWH)	Water (Thousand Gallons)	Wastewater
Purchased and produced	<u>86,412</u>	<u>1,087,087</u>	
Units accounted for:			
Metered sales during year	76,164	936,926	
Consumption by:			
City Utilities Commission	4,954	35,176	
City of Corbin	<u>1,772</u>	<u>645</u>	
Total	<u>82,890</u>	<u>972,747</u>	
Units unaccounted for	<u>3,522</u>	<u>114,340</u>	
Percentage unaccounted for	<u>4.08%</u>	<u>10.52%</u>	
Number of metered customers at end of year	<u>4,040</u>	<u>6,413</u>	<u>4,372</u>

# **Marr, Miller & Myers, PSC**

Certified Public Accountants  
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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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

March 29, 2013

City Utilities Commission  
Corbin, Kentucky

We have audited the financial statements of the business-type activities and the remaining fund information of the City Utilities Commission as of and for the year ended December 31, 2012, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 29, 2013. 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.

### **Internal Control Over Financial Reporting**

Management of the City Utilities Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City Utilities Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **Marr, Miller & Myers, PSC**

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City Utilities Commission's financial statements are free of 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.

This report is intended solely for the information and use of the board, management, and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

***Marr, Miller & Myers, PSC***

Certified Public Accountants