

CITY OF CORBIN  
Corbin, Kentucky

BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2012  
with  
REPORT OF INDEPENDENT AUDITORS

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## REPORT OF INDEPENDENT AUDITORS

Management, Mayor, and Commissioners  
City of Corbin  
Corbin, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business activities as applicable, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Corbin, Kentucky as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These basic financial statements are the responsibility of the City of Corbin, Kentucky's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the City of Corbin Public Library, a legally separate component unit. Accounting principles generally accepted in the United States of America requires the financial data for all component units to be reported with the financial data of the City's primary government unless the City issues financial statements for the financial reporting entity that include the financial data for all its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the effect on the assets, liabilities, net assets, revenues, and expenses for the aggregate discretely presented component units is not known.

In our opinion, because of the omission of the Corbin Public Library financial data, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the City of Corbin, Kentucky as of June 30, 2012 or the changes in financial position thereof for the year then ended.

Further in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities,

each major fund and the aggregate remaining fund information of the City of Corbin, Kentucky as of June 30, 2012 and the respective changes in the financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, on our consideration of City of Corbin, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grants. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, and budgetary comparison information and pension plan information on pages 35 and 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The City of Corbin, Kentucky has not properly presented the required supplementary information related to the Police and Fireman's Pension Fund that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

The City of Corbin, Kentucky did not present a formal budget for the Corbin Arena Fund which is a major fund of the City of Corbin, Kentucky although that budget was prepared.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The supplementary information on pages 35-36 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Cloyd & Associates, PSC*

December 10, 2012  
Cloyd & Associates, PSC  
Corbin, KY

## CITY OF CORBIN, KENTUCKY

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

Year ended June 30, 2012

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As management of the City of Corbin (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

#### FINANCIAL HIGHLIGHTS

- The City's ending cash balance was \$2,322,195 comprised of \$38,078 in restricted cash and \$2,284,117 in unrestricted cash. The prior year's cash balance was \$2,328,201 of which \$256,590 was restricted and \$2,071,611 was unrestricted.
- 
- The City's combined net assets decreased by \$539,946 or approximately 2% between 2011 and 2012.
- The General Fund had approximately \$7.0 million in revenue (excluding debt issues, transfers), which primarily consisted of tax revenue, fees for services and intergovernmental revenue. There was an overall increase in the General Fund net asset balance of approximately \$411,511 which represents approximately a 12.5% increase relative to the prior year. The Corbin Arena Fund showed an overall decrease of \$450,934. The total overall decrease for governmental funds was \$35,906 or approximately 1.5% between 2011 and 2012.
- The City's total long-term debt decreased by \$668,206, relative to 2011. The City issued one new note in the amount of \$8,048 during the year, and ending the ending debt balance was \$12,190,508 including the net pension obligation and accrued absences.

#### OVERVIEW OF FINANCIAL STATEMENTS

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

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

The statement of net assets presents information on all of the City'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 City is improving or deteriorating.

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

## CITY OF CORBIN, KENTUCKY

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

Year ended June 30, 2012

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The government-wide financial statements outline functions of the City that are primarily supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police department, fire protection, public works, recycling, building inspection, parks and recreation, and special projects. Fixed asset acquisitions and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 8 and 9 of this report.

**Fund financial statement.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to provide benefits for employees. The City has no proprietary funds. All other activities of the City are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 15 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 18 through 34 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental assets exceeded liabilities by approximately \$33 million. The largest portion of the City's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

# CITY OF CORBIN, KENTUCKY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) Year ended June 30, 2012

### The City as a Whole

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

	Governmental Activities		Total	
	2011	2012	2011	2012
Current and other assets	\$ 3,920,839	\$ 3,841,952	\$ 3,920,839	\$ 3,841,952
Capital assets, net of depreciation	43,531,709	42,341,076	43,531,709	42,341,076
<b>Total Assets</b>	<b>47,452,548</b>	<b>46,183,028</b>	<b>47,452,548</b>	<b>46,183,028</b>
Short-term liabilities	1,573,369	1,636,780	1,573,369	1,636,780
Other liabilities	12,274,370	11,480,989	12,274,370	11,480,989
<b>Total Liabilities</b>	<b>13,847,739</b>	<b>13,117,769</b>	<b>13,847,739</b>	<b>13,117,769</b>
Net assets				
Invested in capital assets, net of related debt	32,278,626	31,729,237	32,278,626	31,729,237
Restricted	175,003	38,078	175,003	38,078
Unrestricted	1,151,180	1,297,944	1,151,180	1,297,944
<b>Total Net Assets</b>	<b>\$ 33,604,809</b>	<b>\$ 33,065,259</b>	<b>\$ 33,604,809</b>	<b>\$ 33,065,259</b>

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

	Governmental Activities		Total	
	2011	2012	2011	2012
Revenues				
Program revenues				
Charges for services	\$ 1,850,974	\$ 1,997,534	\$ 1,850,974	\$ 1,997,534
Operating Grants & contributions	1,535,632	1,180,338	1,535,632	1,180,338
Capital Grants & contributions	373,410	136,657	373,410	136,657
General revenues				
Local taxes	4,355,317	4,390,145	4,355,317	4,390,145
Licenses and permits	389,311	414,785	389,311	414,785
Rent	178,082	198,591	178,082	198,591
Earnings on investments	21,507	13,254	21,507	13,254
Other	9,668	144,033	9,668	144,429
<b>Total revenues</b>	<b>\$ 8,713,901</b>	<b>\$ 8,475,337</b>	<b>\$ 8,713,901</b>	<b>\$ 8,475,733</b>
Expenses				
General government	1,347,800	1,205,253	1,347,800	1,205,253
Police department	1,793,498	1,895,965	1,793,498	1,895,965
Fire department	1,112,513	1,227,414	1,112,513	1,227,414
Public works	1,662,139	1,740,043	1,662,139	1,740,043
Recycling center	184,949	384,591	184,949	384,591
Building inspector	101,765	116,939	101,765	116,939
Parks and recreation	478,054	586,774	478,054	586,774
Special projects	55,990	157,519	55,990	157,519
Arena	1,946,241	1,607,296	1,946,241	1,607,296
Interest on debt service	276,580	93,489	276,580	93,489
<b>Total expenses</b>	<b>\$ 8,959,529</b>	<b>\$ 9,015,283</b>	<b>\$ 8,959,529</b>	<b>\$ 9,015,283</b>
Increase/(Decrease) in net assets	\$ (245,628)	\$ (539,946)	\$ (245,628)	\$ (539,550)

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



**CITY OF CORBIN, KENTUCKY**

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

**Year ended June 30, 2012**

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for fiscal years 2012 and 2011:

	2011	2012
<b>Revenues and other financing sources</b>		
Tax and related revenue	\$ 4,355,317	\$ 4,390,145
Licenses and permits	389,311	414,786
Fees for services	1,850,974	1,997,534
Rent	178,082	198,591
Investments	21,507	13,254
Intergovernmental	1,909,042	1,316,994
Other	9,668	163,295
Transfers	125,000	-
Debt issue	6,975,000	-
<b>Total Revenue and other financing sources</b>	<b>15,813,901</b>	<b>8,494,599</b>
<b>Expenditures and other financing uses</b>		
General government	931,640	723,474
Police department	1,975,905	1,895,965
Fire department	1,168,555	1,227,414
Public works	1,623,824	1,740,043
Recycling center	176,050	384,592
Building inspection	100,996	116,939
Parks and recreation	564,913	586,774
Special projects	256,933	157,519
Arena	1,718,761	859,664
Debt service	160,418	841,638
Refinancing cost	6,975,000	-
Transfers	125,000	-
<b>Total expenditures and other financing uses</b>	<b>15,777,995</b>	<b>8,534,022</b>
<b>Net change in fund balance</b>	<b>\$ 35,906</b>	<b>\$ (39,423)</b>

**General Fund Revenue**

The majority of revenue, net of debt, was derived from tax revenue (48% in 2012 and 48% in 2011) and intergovernmental revenue (8% in 2012 and 28% in 2011). Fees for services made up 22% of revenue in 2012 and 21% in 2011. Interest income made up 0.17% of total revenues in 2012 and 0.25% in 2011. The primary reason for the changes was decreased grant revenue associated with the Arena and other projects.

## **CITY OF CORBIN, KENTUCKY**

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

**Year ended June 30, 2012**

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#### **BUDGETARY IMPLICATION**

The City's fiscal year is July 1-June 30; other programs, i.e., some federal programs operate on a different fiscal calendar, but are reflected in the City's overall budget. Significant events that may impact the finances include expected state budget deficits that may impact grant or other revenue. The City routinely attempts to keep expenditures to a minimum because of the anticipated revenue problems. The City's budget was exceeded in the current year primarily because Arena revenue and expense was not budgeted in the general fund.

Questions regarding this report should be directed to the Corbin City Clerk, Corbin, Kentucky, 40701.

**CITY OF CORBIN, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**June 30, 2012**

	Primary Government		
	Governmental		Component
	Activities	Total	Units
<b>ASSETS</b>			
Cash and cash equivalents - unrestricted	\$ 2,284,117	\$ 2,284,117	\$ 339,249
Restricted cash and cash equivalents	38,078	38,078	-
Taxes receivable:			
Restaurant tax	234,669	234,669	-
Insurance tax	324,152	324,152	-
Occupational tax	185,019	185,019	-
Other tax	15,574	15,574	-
Other receivables (net of allowance for uncollectible accounts)	267,582	267,582	39,892
Due from primary government	-	-	233,061
Prepaid expense	1,009	1,009	802
Due from component units	179,425	179,425	-
Debt issuance costs	312,327	312,327	-
Investment in fixed assets, net			
Non-depreciable	2,593,027	2,593,027	-
Depreciable	39,748,049	39,748,049	210,964
<b>Total assets</b>	<b>46,183,028</b>	<b>46,183,028</b>	<b>823,968</b>
<b>LIABILITIES</b>			
Accounts payable	295,112	295,112	694
Accrued expenses	146,568	146,568	-
Due to component units	243,187	243,187	179,425
Due to primary government	-	-	-
Accrued interest	25,193	25,193	-
Accrued compensated absences - current	19,700	19,700	-
Short term loan payable	217,203	217,203	-
Current portion of capital leases due	65,000	65,000	-
Current portion of long-term notes payable	68,469	68,469	-
Current portion purchase agreements payable	556,348	556,348	-
Pension liability payable	1,155,680	1,155,680	-
Long-term portion of notes payable	3,577	3,577	-
Long-term portion of lease purchase agreements payable	10,230,772	10,230,772	-
Non-current portion of accrued compensated absences	90,960	90,960	-
<b>Total liabilities</b>	<b>13,117,769</b>	<b>13,117,769</b>	<b>180,119</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	31,729,237	31,729,237	210,964
Restricted for:			
Operations	-	-	-
Capital expenditures	38,078	38,078	-
Unrestricted	1,297,944	1,297,944	432,885
<b>Total net assets</b>	<b>\$ 33,065,259</b>	<b>\$ 33,065,259</b>	<b>\$ 643,849</b>

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

## CITY OF CORBIN, KENTUCKY

STATEMENT OF ACTIVITIES  
Year ended June 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Primary Government Net (Expense) Revenue and Changes in Net Assets		Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total	
<b>Governmental activities</b>							
General Government	\$ 879,847	\$ 35,074	\$ 70,767	\$ -	\$ (774,006)	\$ (774,006)	\$ (966,231)
Police Department	2,037,678	36,921	60,166	-	(1,940,591)	(1,940,591)	-
Fire Department	1,234,749	150	72,638	500	(1,161,461)	(1,161,461)	-
Public Works	1,809,669	1,393,561	152,798	-	(263,310)	(263,310)	-
Recycling Center	393,171	75,837	-	86,602	(230,732)	(230,732)	-
Building Inspection	117,680	1,595	-	-	(116,085)	(116,085)	-
Parks and Recreation	632,880	69,981	2,000	-	(560,899)	(560,899)	-
Special Projects	157,519	-	50,282	49,555	(57,682)	(57,682)	-
Arena expenditures	1,572,178	384,415	771,687	-	(416,076)	(416,076)	-
Interest on Long-Term Debt	179,912	-	-	-	(179,912)	(179,912)	-
<b>Total primary government</b>	<b>\$ 9,015,283</b>	<b>\$ 1,997,534</b>	<b>\$ 1,180,338</b>	<b>\$ 136,657</b>	<b>(5,700,754)</b>	<b>(5,700,754)</b>	<b>(966,231)</b>
<b>General revenues</b>							
Taxes:							
Property					923,309	923,309	-
Motor vehicle					95,584	95,584	-
Occupational					1,358,965	1,358,965	-
Municipal insurance					1,516,400	1,516,400	-
Restaurant					-	-	985,914
Other					174,370	174,370	110,879
Municipal fees in lieu of taxes					321,517	321,517	-
Licenses and permits					414,785	414,785	-
Rent					198,591	198,591	-
Earnings on investments					13,254	13,254	154
Other					44,628	44,628	577
Gain on disposal of assets					99,801	99,801	-
<b>Total general revenues</b>					<b>5,161,204</b>	<b>5,161,204</b>	<b>1,097,524</b>
<b>Change in net assets</b>					<b>(539,550)</b>	<b>(539,550)</b>	<b>131,293</b>
<b>Net assets as of July 1, 2011</b>					<b>33,604,809</b>	<b>33,604,809</b>	<b>512,556</b>
<b>Net assets as of June 30, 2012</b>					<b>\$ 33,065,259</b>	<b>\$ 33,065,259</b>	<b>\$ 643,849</b>

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

**CITY OF CORBIN, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2012**

	General Fund	Corbin Arena Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents - unrestricted	\$ 1,788,747	\$ 495,370	\$ 2,284,117
Restricted cash and cash equivalents	38,078	-	38,078
Taxes receivable			
Restaurant tax	234,669	-	234,669
Insurance tax	324,152	-	324,152
Occupational tax	185,019	-	185,019
Other tax	15,574	-	15,574
Other receivables (net of allowance for uncollectible accounts)	261,105	6,477	267,582
Prepaid expenses	1,009	-	1,009
Due from Arena Fund	1,754,073	-	1,754,073
Due from component units	-	179,425	179,425
<b>Total assets</b>	<u>\$ 4,602,426</u>	<u>\$ 681,272</u>	<u>\$ 5,283,698</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 279,571	\$ 15,541	\$ 295,112
Accrued expenses	140,878	5,690	146,568
Short-term obligations payable	217,203	-	217,203
Current portion of accrued compensated absences	19,700	-	19,700
Due to General Fund	-	1,754,073	1,754,073
Due to component units	243,187	-	243,187
<b>Total liabilities</b>	<u>900,539</u>	<u>1,775,304</u>	<u>2,675,843</u>
<b>Fund balances</b>			
Nonspendable	-	-	-
Restricted	38,078	-	38,078
Committed	-	-	-
Assigned	-	-	-
Unassigned	3,663,809	(1,094,032)	2,569,777
<b>Total fund balances</b>	<u>3,701,887</u>	<u>(1,094,032)</u>	<u>2,607,855</u>
<b>Total liabilities and fund balances</b>	<u>\$ 4,602,426</u>	<u>\$ 681,272</u>	<u>\$ 5,283,698</u>

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

**CITY OF CORBIN, KENTUCKY**

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

**June 30, 2012**

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Total fund balances - governmental funds	\$ 2,607,855
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$59,613,862 and the accumulated depreciation is \$17,272,786	42,341,076
Bond issue costs are not current financial resources and, therefore, are not reported as assets in governmental funds.	312,327
Bonds payable, notes payable and leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net assets.	(10,924,166)
The net pension obligation is not expected to be paid from current economic resources and is not reported in the governmental funds balance sheet but is presented in the statement of net assets.	(1,155,680)
Long-term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	(90,960)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	<u>(25,193)</u>
Total net assets - governmental activities	<u>\$ 33,065,259</u>

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

## CITY OF CORBIN, KENTUCKY

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

## GOVERNMENTAL FUNDS

Year ended June 30, 2012

	General Fund	Corbin Arena Fund	Total Governmental Funds
<b>Revenues</b>			
Taxes:			
Property	\$ 923,309	\$ -	\$ 923,309
Motor vehicle	95,584	-	95,584
Occupational	1,358,965	-	1,358,965
Municipal insurance	1,516,400	-	1,516,400
Other	174,370	-	174,370
Revenue in lieu of tax	321,517	-	321,517
Licenses and permits	414,786	-	414,786
Fees for services	1,613,119	384,415	1,997,534
Rent	198,591	-	198,591
Interest	12,994	260	13,254
Intergovernmental revenues	545,307	771,687	1,316,994
Other	44,142	-	44,142
Total revenues	<u>7,219,084</u>	<u>1,156,362</u>	<u>8,375,446</u>
<b>Expenditures</b>			
General government	723,474	-	723,474
Police department	1,895,965	-	1,895,965
Fire department	1,227,414	-	1,227,414
Public works	1,740,043	-	1,740,043
Recycling center	384,592	-	384,592
Building inspection	116,939	-	116,939
Parks and Recreation	586,774	-	586,774
Special projects	157,519	-	157,519
Arena expenditures	-	859,664	859,664
Debt Service	94,006	747,632	841,638
Total expenditures	<u>6,926,726</u>	<u>1,607,296</u>	<u>8,534,022</u>
Excess (deficit) of revenues over (under) expenditures	292,358	(450,934)	(158,576)
<b>Other financing sources (uses)</b>			
Proceeds from sale of assets	111,105	-	111,105
Proceeds from debt	8,048	-	8,048
Total other financing sources (uses)	<u>119,153</u>	<u>-</u>	<u>119,153</u>
Net change in fund balance	411,511	(450,934)	(39,423)
Fund balances, July 1, 2011	<u>3,290,376</u>	<u>(643,098)</u>	<u>2,647,278</u>
Fund balances, June 30, 2012	<u>\$ 3,701,887</u>	<u>\$ (1,094,032)</u>	<u>\$ 2,607,855</u>

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

**CITY OF CORBIN, KENTUCKY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES**

**Year ended June 30, 2012**

---

Net change in total fund balances - governmental funds	\$ (39,423)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense (\$1,499,106) exceeds capital outlay (\$319,777) for the year.	(1,179,329)
Bond issuance costs are amortized over the life of the related bonds on the statement of activities.	(18,517)
Debt issuance cost is an expense in the governmental fund financial statements but is an asset in the government wide statements	-
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements but are reductions of liabilities in the statement of net assets.	668,206
Capital debt is shown as other sources and uses of funds in the governmental statements but is a liability in the government wide statements-net	(8,048)
The decrease in net pension obligation is not shown on the governmental fund statements because it is not expected to be satisfied with current economic resources, but it is recognized in the statement of activities.	48,348
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities.	517
The gain or loss on disposal of assets is shown is recognized net of proceeds and remaining basis in the government wide statements but only the proceeds are recognized in the governmental funds financial statements.	<u>(11,304)</u>
Change in net assets - governmental activities	<u>\$ (539,550)</u>

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



**CITY OF CORBIN, KENTUCKY**

**STATEMENT OF FIDUCIARY NET ASSETS**

**FIDUCIARY FUNDS**

**June 30, 2012**

---

	Agency Funds	Pension Trust Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 258,807
Investments	-	479,183
Receivables		
Interest	-	928
	<hr/>	<hr/>
<b>Total Assets</b>	-	738,918
	<hr/>	<hr/>
<b>LIABILITIES</b>		
Due to agencies	-	-
	<hr/>	<hr/>
<b>Total Liabilities</b>	-	-
	<hr/>	<hr/>
<b>NET ASSETS</b>		
Held in trust for pension benefits	\$ -	\$ 738,918
	<hr/>	<hr/>

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

**CITY OF CORBIN, KENTUCKY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

**FIDUCIARY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

---

**ADDITIONS**

Tax revenue	\$ 412,113
Employee contributions	-
Interest	5,038
Other	<u>51</u>
Total revenues	<u>417,202</u>

**DEDUCTIONS**

Benefits	423,058
Plan administration	<u>5,050</u>
Total expenditures	<u>428,108</u>

Increase/(Decrease) in net assets (10,906)

Net Assets, July 1, 2011 749,824

Net Assets Held in Trust for Pension Benefits, June 30, 2012 \$ 738,918

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

**CITY OF CORBIN, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**June 30, 2012**

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	Corbin Tourism and Convention Commission
<b>ASSETS</b>	
Cash and cash equivalents	\$ 339,249
Taxes receivable	
Transient room tax receivable	33,784
Due from primary government	233,061
Other receivables	6,108
Prepaid expenses	802
Investment in fixed assets, net	-
Depreciable	210,964
<b>Total assets</b>	<u>823,968</u>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>Liabilities</b>	
Accounts payable	694
Arena operations funding payable	179,425
<b>Total liabilities</b>	<u>180,119</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	210,964
Unrestricted	432,885
<b>Total net assets</b>	<u>\$ 643,849</u>

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

CITY OF CORBIN, KENTUCKY  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2012

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets Corbin Tourism Convention Center	<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		
Corbin Tourism and Convention Center	\$ 975,492	\$ 4,835	\$ 4,426	\$ -	\$ (966,231)	\$ (966,231)
<b>General revenues</b>						
Taxes:						
Property					-	-
Restaurant tax					985,914	985,914
Transient room tax					110,879	110,879
Licenses and permits					-	-
Earnings on investments					154	154
Other					577	577
Total general revenues					<u>1,097,524</u>	<u>1,097,524</u>
<b>Change in net assets</b>					131,293	131,293
Net assets as of July 1, 2011					<u>512,556</u>	<u>512,556</u>
<b>Net assets as of June 30, 2012</b>					<u>\$ 643,849</u>	<u>\$ 643,849</u>

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

## **CITY OF CORBIN, KENTUCKY**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

**Year ended June 30, 2012**

---

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. The financial reporting entity**

The City of Corbin, Kentucky is a fourth-class city and operates under a City Manager/Commission form of government. The City's major operations include public safety, fire protection, public works, recreation and parks, and general administrative services. As defined by accounting principles generally accepted in United States of America (GAAP) that are established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. To be complete, the financial statements of the reporting entity should include the primary government and its component units.

Agencies and authorities which were evaluated for possible inclusion in the reporting entity were the Corbin Library Board, the Corbin Tourism Commission, Corbin City Hall Public Corporation, the Corbin Industrial Commission, the Corbin City Utilities Commission, the Corbin Housing Authority, and the Corbin School District.

Based on the above criteria, the component units of the City are the Corbin Library Board, the Corbin Tourism Commission, and Corbin City Hall Public Corporation. Component units of the City, except the Corbin City Hall Public Corporation, issue separately audited Component Unit Financial Statements (CUFS). Copies of the CUFS may be obtained from the City Clerk at Corbin City Hall. The City of Corbin Library Board did not issue audited financial statements in the current year.

The Corbin City Hall Public Corporation is governed by a board that is substantially the same as the City Commission. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance certain projects and hold City property. The activity of the Corbin City Hall Public Corporation is blended with the City's financial statements.

Related organizations not determined to be component units include the Corbin Industrial Commission, City Utilities Commission, Corbin School District, and the Corbin Housing Authority. The reasons for their exclusion are summarized below.

##### **Corbin Industrial Commission/City Utilities Commission**

The commissions' governing boards are approved by the mayor and commissioners, but there is no significant continuing relationship between the commissions and the City. The management of each commission is selected by its governing board. The operation of the commissions is the exclusive responsibility of the commissions' management and the City has no authority to interfere with these operations. The commissions are responsible for their own financial affairs, including the funding of deficits and the disposition of surpluses. The City does not guarantee any of the commissions' outstanding debt.

##### **Corbin Housing Authority/Corbin School District**

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

## CITY OF CORBIN, KENTUCKY

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

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

##### B. Basic financial statements

In accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

The government-wide Statement of Net Assets reports all financial and capital resources of the City (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

## CITY OF CORBIN, KENTUCKY

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

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

Also, part of the basic financial statements are fund financial statements for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The City does not have any proprietary funds (business-type activities in the government-wide financial statements). The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The City added a fund during the current year to present the activities of the Arena. In addition the debt service fund was deleted due to refinancing of bonds and capital leases. The additions and deletions did not change overall beginning net assets but the net assets were redistributed among the two funds.

The City reports the following major governmental funds:

General Fund – The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The activity of City Hall Public Corporation is blended with the general fund.

Corbin Arena Fund – The Arena funds accounts for all the activity of the Arena including debt service. The Arena fund is considered a special revenue fund by the City.

Additionally, the City reports the following fund types:

Pension Trust Funds – The pension trust funds account for assets held on behalf of City employees.

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

#### C. Measurement focus and basis of accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, licenses, fees and permits, intergovernmental revenues charges for services, fines, forfeits and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

## **CITY OF CORBIN, KENTUCKY**

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

**Year ended June 30, 2012**

---

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

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to; 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

#### **D. Cash and cash equivalents and investments**

For purposes of the basic financial statements, the City considers cash and cash equivalents to be all demand deposits, all certificates of deposit, and highly liquid, short-term security investments that are readily convertible to known amounts of cash and mature within three months of the date they are acquired. Deposits (cash and investments) are carried at cost which approximates market value. The carrying amount of all deposits is separately displayed on the balance sheet depending on the terms of the deposit. Restricted cash and investments are separately displayed on the balance sheet.

The City of Corbin, Kentucky is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities;
2. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
3. Shares of any savings and loan association insured by an agency of the government of the United States up to the amount so insured;
4. Interest bearing deposits in nationally chartered or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in large amounts provided such bank shall pledge as security obligations of the United States government, its agencies and instrumentalities. Investments are stated as cost or amortized cost, which approximates market.

#### **E. Receivables**

All trade receivables are shown net of an allowance for uncollectible accounts and estimated refunds. As of June 30, 2012, the allowance for uncollectible accounts for governmental activities was \$2,008. Grants are fully recognized as revenues when earned because the City expects to collect the amount in full within 60 days of earning the revenue.

#### **F. Prepaid expenses**

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



# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

---

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

#### G. Restricted assets

Certain grant proceeds, as well as funds set aside for the repayment of bonds are classified as restricted on the balance sheet and statement of net assets, because they are maintained in separate bank accounts and their use is limited by applicable grant agreements or debt covenants.

#### H. Capital assets

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or business-type activities are recorded and depreciated in the government-wide financial statements. No capital assets or depreciation are shown in the governmental funds financial statements. The City considers assets with a cost of \$500 and useful lives in excess of one year or more to be a capital asset.

At the implementation of GASB-34, the City was a Phase 3 government (governments with total annual revenues of less than \$10 million). Consequently, the City was not required by the provisions of GASB-34 to report major infrastructure assets retroactively. The City chose not to record infrastructure assets retroactively; however, as of July 1, 2003, all infrastructure asset additions and disposals are reported by the City.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Major additions that are substantially a new asset are capitalized over the useful lives of that asset category as determined by the City's management.

Major outlays for capital assets and improvements are capitalized as the projects are constructed and put into use. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	5 to 50 years
Improvements other than buildings	10 to 50 years
Machinery and equipment	3 to 20 years

Capital assets transferred between funds or functions are transferred at their net book value (cost less accumulated depreciation), as of the date of transfer.

#### I. Lease obligations

The City may have various assets under capital lease agreements. In the government wide financial statements, capital leases and the related lease obligations are reported as liabilities in the governmental activities of the statement of net assets.

#### J. Debt costs

Debt issuance costs in the amount of \$312,327 net of accumulated amortization are included in noncurrent assets. Debt issuance costs include the fees associated with issuance of debt. Both debt issuance costs and discounts are amortized over the lives of the related debt issues using the straight-line method.

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

---

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

#### K. Deferred revenues

Deferred revenues arise in governmental funds when revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenue may also arise, in both governmental and proprietary funds, when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures (unearned). In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The City assumes all delinquent taxes to be uncollectible at the end of the year and does not record deferred revenue in connection with taxes receivable.

#### L. Compensated absences

Compensated absences, vacation and sick pay, for all City employees are paid by the City’s general fund. It is the policy of the City to pay all accumulated vacation pay when an employee retires or terminates. The current portion of accrued and compensated absences is determined by the City based on historical averages. Vested vacation and sick pay benefits are accrued when incurred.

#### M. Pension plans

Full-time City employees are members of the State of Kentucky County Employees’ Retirement System (CERS). The City’s policy is to fund all pension costs accrued; such costs to be funded are determined annually as of June 30 of the prior fiscal year by the System’s actuary. Certain employees are also members of the Police and Fireman’s pension fund. The City funds the Police and Fireman’s Pension Fund through special tax assessments and employee contributions.

#### N. Fund balances:

The Board has elected to adopt GASB Statement Number 54 for the current and subsequent reporting periods. This statement substantially changes the terminology used to describe different component of the fund balance. Under this statement, the fund balance is separated into five categories as follows:

Nonspendable:	Funds permanently nonspendable by decree of donor, such as an endowment or items which may not be used for another purpose, such as amounts used to prepay future expenses or already purchased inventory on hand.
Restricted:	Funds legally restricted under federal and state law, bond authority or grantor contract.
Committed:	Commitments passed by the Board for specific expenditures.
Assigned:	Funds assigned to management priority including issued encumbrances.
Unassigned:	Funds available for future operations

It is the Board’s practice to liquidate funds when conditions have been met releasing these funds from legal, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

The City does not use encumbrance accounting.

## **CITY OF CORBIN, KENTUCKY**

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

**Year ended June 30, 2012**

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

##### **O. Budgets and Budgetary accounting**

The City follows procedures pursuant to KRS 91A.030 in establishing the budgetary data reflected in the financial statements as follows:

1. Prior to May 1 of each year, the Mayor submits to the Corbin City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between categories within each department; however, any revisions that alter the total expenditures of any fund must be approved by the Corbin City Commission.
5. Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Operating transfers required for debt service are accounted for in the budget of the City's general fund.
6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Actual expenditures may not exceed the legally adopted budget for any given fund.
7. The budget for the fiscal year ending June 30, 2012 was amended during the year. The amendment was approved in the same manner as the original budget was adopted.

##### **P. Property taxes**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1, and are payable in full by December 31. The City bills and collects its own property taxes. City property tax revenues are recorded as receivables and deferred revenue at the time the tax levy is billed. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after the year-end. Delinquent taxes represent unpaid taxes for the past three years. The City does not realize prior year delinquencies in the following year soon enough to make them available to meet current year expenditures, and fully reserves the uncollected balance at year's end.

##### **Q. Special projects**

The City uses its general fund to account for all governmental activity except that associated with debt service. In lieu of establishing a special revenue fund for capital projects, the City reflects acquisition and construction activities financed by governmental grants as "special projects" within the general fund. The City generally does not capitalize construction period interest in governmental funds.

## **CITY OF CORBIN, KENTUCKY**

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

**Year ended June 30, 2012**

---

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

##### **R. Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

##### **S. Inventory**

Inventory is reported at cost and pertains only to the Arena at the David L. Williams Southeastern Kentucky Agriculture and Exposition Complex

#### **NOTE 2 – CASH AND INVESTMENTS**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2012, the carrying amount of the City's cash and cash equivalents was \$2,322,195 with a bank balance of \$2,431,687. Of the total cash balance, \$750,000 was covered by federal depository insurance with the remaining balance, excluding petty cash of \$1,400, was covered by a collateral agreement and collateral held by the pledging bank's trust department in the City's name. By state statute, and City policy, the City may deposit funds in state and nationally chartered banks which provide FDIC insurance and sufficient collateral to secure deposits in excess of FDIC coverage. Cash equivalents are considered to be all demand deposits, certificates of deposit and highly liquid, short-term security investments that are readily convertible to known amounts of cash and mature within three months of the date they are acquired. Of the total cash balance, \$38,078 is considered restricted. Restricted cash is comprised of \$38,078 restricted for capital improvement. The remaining balance is unrestricted.

#### **NOTE 3 - INVESTMENTS**

City funds are considered to be public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2012, the City holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the City does not bear investment related credit risk or interest rate risk. The City has not adopted a formal investment policy.

#### **NOTE 4 – CONTINGENCIES**

##### **A. Pending and Threatened Litigation**

A number of claims and suits are pending against the City for alleged damages to persons and/or property and for other alleged liabilities arising out of matters usually incident to the operation of a city such as Corbin. In the opinion of City management, the City has strong defenses against such claims, and thus the ultimate loss, if any, relating to these claims and suits not covered by insurance, will not materially affect the financial position of the City.

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

### B. Short-term Line of Credit

The City of Corbin maintains a short-term line of credit of \$600,000. The purpose of the loan is to meet short-term commitments as needed. The balance owed on the line of credit at June 30, 2012 is \$217,203

A schedule of activity is presented below:

<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>\$ 218,425</u>	<u>\$ -</u>	<u>\$ 1,222</u>	<u>\$ 217,203</u>

### D. Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

### NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>Governmental activities</b>				
Land	\$ 2,593,027	\$ -	\$ -	\$ 2,593,027
Buildings and improvments	47,722,972	25,920	43,340	47,705,551
Improvements				
other than buildings	3,239,937	85,412	-	3,325,349
Equipment	5,796,187	208,445	128,500	5,876,132
Other	113,803	-	-	113,803
Construction in progress	-	-	-	-
	<u>59,465,926</u>	<u>319,777</u>	<u>171,840</u>	<u>59,613,862</u>
Less: Accumulated depreciaion				
Buildings and improvements	10,196,013	935,188	32,036	11,099,165
Improvements				
other than buildings	1,141,117	52,169	-	1,193,286
Equipment	4,552,510	493,372	128,500	4,917,382
Other	<u>44,577</u>	<u>18,376</u>	<u>-</u>	<u>62,953</u>
Total accumulated depreciation	<u>15,934,217</u>	<u>1,499,105</u>	<u>160,536</u>	<u>17,272,786</u>
Governmental activities, net capital assets	<u>\$ 43,531,709</u>	<u>\$ (1,179,328)</u>	<u>\$ 11,304</u>	<u>\$ 42,341,076</u>

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

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

General government	\$ 505,494
Police department	144,963
Fire department	11,010
Public works	69,626
Corbin recycling center	8,580
Parks and recreation	46,178
Building inspector	741
Arena	712,513
	<u>\$ 1,499,105</u>

### NOTE – 6 LONG-TERM LIABILITIES

#### A. General Obligation Leases

##### Refinancing Lease

In November 2012, the City issued a General Obligation Capital Lease to refinance the City's 2000 General Obligation Bonds, and two previous Capital Leases associated with construction of the David L. Williams Arena. The total refinancing amount was \$6,975,000, which refinanced \$1,085,000 principal of the Series 2000 General Obligation Bonds and \$5,682,215 on Arena capital leases. In addition there was \$207,785 in cost of issuance. The lease bears variable interest in range from 4.2% to 5.2%. The debt service is split between the General Fund and the Corbin Arena Fund on a pro rate basis. The bond maturities and interest as of June 30, 2012 are as follows:

Year ending June 30,	Principal Payment	Interest and Fees	Total
2013	\$ 359,169	\$ 227,534	\$ 586,703
2014	367,083	219,453	586,536
2015	376,250	209,652	585,902
2016	389,167	197,724	586,891
2017	399,167	184,776	583,943
2018	411,250	171,803	583,053
2019	426,250	158,438	584,688
2020	439,167	144,584	583,751
2021	397,083	130,311	527,394
2022	336,250	117,062	453,312
2023	349,166	104,934	454,100
2024	361,250	92,087	453,337
2025	376,250	77,908	454,158
2026	391,250	62,858	454,108
2027	405,250	46,792	452,042
2028	423,333	29,526	452,859
2029	254,748	11,222	265,970
	<u>\$ 6,462,083</u>	<u>\$ 2,186,665</u>	<u>\$ 8,648,748</u>

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

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

#### David L. Williams Southeastern Kentucky Agriculture Exposition Complex (ARENA)

During the year ended June 30, 2009 and June 30, 2010 the City entered into lease agreements with the Kentucky League of Cities in order to provide final financing for the Arena. Proceeds from the leases were \$8,000,000, and \$3,000,000 including \$149,510 of debt issuance cost. The two \$3,000,000 notes were refinanced in the current year leaving the \$5,000,000 lease to be repaid over in monthly payments over a period of 20 years. The effective interest rate is stated at 2% with true interest cost stated as variable between 3.39% and 4.02%. The actual interest rate may vary based on indices used by the Kentucky League of Cities. Future principal and anticipated interest rates as of June 30, 2012 are:

Year ending <u>June 30,</u>	Principal <u>Payment</u>	Interest <u>and Fees</u>	<u>Total</u>
2013	\$ 197,181	\$ 118,478	\$ 315,659
2014	204,471	113,114	317,585
2015	212,298	107,367	319,665
2016	220,169	101,590	321,759
2017	228,986	95,143	324,129
2018	237,537	88,858	326,395
2019	246,622	82,190	328,812
2020	255,867	75,405	331,272
2021	265,933	68,037	333,970
2022	275,950	60,679	336,629
2023	286,496	52,941	339,437
2024	297,337	44,987	342,324
2025	308,855	36,546	345,401
2026	320,576	27,943	348,519
2027	332,819	18,962	351,781
2028	345,514	9,648	355,162
2029	88,426	910	89,336
	<u>\$ 4,325,037</u>	<u>\$ 1,102,798</u>	<u>\$ 5,427,835</u>

#### B. Notes Payable

##### Bank of Corbin

During the fiscal year ended June 30, 2010, the City issued a note payable to the Bank of Corbin in the amount of \$190,282 for the purchase of police cruisers. The note bears interest at the rate off 3.25% and may vary over the life of the loan. The City will pay monthly payments of \$5,555 including interest from the general fund over a period of two remaining years as follows:

Fiscal Year Ended June 30,	Principal	Interest
2013	\$ 65,786	\$ 1,159
	<u>\$ 65,786</u>	<u>\$ 1,159</u>

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

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

#### C. Capital Lease Obligations

##### Fire Truck

The City entered into a long-term non-cancelable lease with the Kentucky Area Development District in the amount of \$555,000 in September 2002 for the acquisition of a ladder truck for the Fire Department. The lease qualifies as a capital lease for accounting purposes as defined under the Financial Accounting Standards Board Statement No. 13, Accounting for Leases and therefore has been recorded at the present value of future minimum lease payments at the inception of the leases. The City will pay semi-annual payments including an amount representing interest ranging from 1.6% to 3.9% to KADD, with the final payment due on December 1, 2012. The payments have historically been made through the City's general fund. Minimum required rental payments under this capital lease, together with the net present value of the minimum lease payments as of June 30, 2012 are:

Fiscal Year Ended June 30,	Amount
2013	\$ 66,268
	66,268
Less amount representing interest, variable	1,268
Present value of minimum lease payments	<u>\$ 65,000</u>

##### Kubota Credit

The City entered into a note agreement with Kubota Credit for the year ended June 30, 2012 in the amount of \$8,048 for the acquisition of equipment. The note bears no interest and the City will pay monthly payments in the amount of \$223 for 36 months until the note is retired in October 2015. The payments will be made through the City's general fund. The future debt service is as follows::

Fiscal Year Ended June 30,	Amount
2013	\$ 2,676
2014	2,676
2015	908
Total	<u>\$ 6,260</u>



## CITY OF CORBIN, KENTUCKY

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

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

Changes in long-term liability for the year ended June 30, 2012 were as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
KADD 2002 Lease	\$ 125,000	\$ -	\$ 60,000	\$ 65,000
KLC Leases	4,514,478	-	189,441	4,325,037
KLC Refinancing Lease	6,814,168	-	352,085	6,462,083
Hometown Bank Note Payable	129,079	-	63,293	65,786
Recreation Leases	1,600	-	1,600	-
Kubota Credit	-	8,048	1,788	6,260
Net pension obligation	1,204,028	-	48,348	1,155,680
Accrued absences	111,056	-	396	110,660
	<u>\$ 12,899,409</u>	<u>\$ 8,048</u>	<u>\$ 716,951</u>	<u>\$ 12,190,506</u>

Capital assets under capital lease at June 30, 2012 consist of a fire truck which is fully depreciated and recreation equipment. In addition, the Arena and related assets are under a lease purchase agreement. The City's management believes that all debt covenants are being complied with.

#### NOTE 7 – PENSION PLANS

##### A. General Government Employees

The City contributes to the Kentucky County Employees Retirement System (CERS), which is a cost-sharing multiple-employer public employer retirement system (PERS) administered by the Kentucky retirement system. All full-time employees are eligible and must participate in the State PERS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits to plan members and their beneficiaries. A member may retire after reaching the age of 55 or accumulating 27 years (20 years for hazardous-pay employees) of service with the City or another entity covered by the State PERS. Employees who retire at or after age 55 with 27 (20 years for hazardous-pay employees) or more years of service are entitled to pension payments for the remainder of their lives equal to a percentage of their final salary which depends on the number of years they were employed by a participant in the state PERS. Ten-year historical trend information showing CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their comprehensive annual financial statements and required supplementary information. The report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601. Separate pension information pertaining solely to the City of Corbin, Kentucky is not available.

Funding Policy: Employees of the City are required to pay 5% (7.65% for hazardous-pay employees) of their gross earnings to the pension plan. The City makes annual contributions to pension plan equal to the amount required by state statutes. During the year the City was required to contribute 18.96% (35.76% for hazardous-pay employees) of its gross payroll to the plan. Covered payroll was \$3,157,279. Total contributions for the year ending June 30, 2012 were \$1,053,556 of which the City contributed \$855,121 and the employees contributed \$198,435. The City's contributions to the County Employee's Retirement systems for the years ending June 30, 2012, 2011 and 2010 were \$855,121, \$731,648, and 702,680, respectively. The City's contributions were equal to the contractually required contributions as set by state statutes.

## CITY OF CORBIN, KENTUCKY

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

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

##### B. Police and Fireman's Pension Fund

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

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

The Plan uses the accrual basis of accounting. Investment income is recognized when incurred and contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the Plan. The Plan does not issue stand-alone financial statements; however, it is presented in the City's financial statements as the Pension Trust Fund. Two investments represented more than 5% of the net assets available for benefits. Long term certificates of deposit in the amounts of \$100,000 and \$379,182 represented 12.99% and 49.29% of total holdings respectively. The remaining assets are held in an interest bearing checking account. The cost of administering the plan is financed by the Pension Trust Fund. There are no related party transactions.

According to KRS 95.629, if there are insufficient funds, the City will be held responsible for the monthly payment of the pensions after the entire proceeds of the pension fund have been transferred to the general fund of the City. Required contributions are determined by actuarial valuation report but must be approved by the City Commission. City contributions are determined by City ordinance and for the year ended June 30, 2010 is 28% of all property taxes collected by the City. Historically the funding policy has been less than the actuarially determined contribution requirement, resulting in a net pension obligation. Membership in the plan as of the actuarial valuation date is thirty participants. None were active and the population is made up of retired or terminated participants with deferred vested benefits.

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

### NOTE 7 – PENSION PLANS (Continued)

Funding Policy and Annual Pension Cost-the annual pension cost for the current year and related information for the plan is as follows:

Annual Pension Cost	\$ 368,802
Contributions made	\$ 417,150
Actuarial valuation date	July 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Amortization period open	20 years
Remaining amortization period	19 years
Asset valuation method	Market
<b>Actuarial assumptions</b>	
Investment rate of return	4%
Projected salary increase	N/A
Inflation rate	N/A

Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation (Benefit)
6/30/2010	\$ 428,564	90.00%	\$ 1,180,173
6/30/2011	\$ 427,853	94.00%	\$ 1,204,028
6/30/2012	\$ 368,802	94.00%	\$ 1,155,680

### SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Value of Assets (a)	Accrued Liability (AAL) (b)	AAL (UALL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll (b-a)/c
12/1/2005	781,966	6,890,979	6,109,013	11%	186,531	3275%
7/1/2008	962,413	7,028,593	6,066,180	14%	118,322	5127%
7/1/2011	745,281	5,968,251	5,222,970	12%	-	N/A

The net pension obligation has been calculated for the City of Corbin Police and Fireman's pension fund as follows:

Annual required contribution	\$ 369,536
Interest on net pension obligation	954
Adjustment to annual required contribution	(1,688)
Annual pension cost	368,802
Contributions made	417,150
Increase in net pension obligation	(48,348)
Net pension obligation at beginning of year	1,204,028
Net pension obligation at end of year	\$ 1,155,680

## **CITY OF CORBIN, KENTUCKY**

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

**Year ended June 30, 2012**

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#### **NOTE – 8 OTHER POST EMPLOYMENT BENEFITS**

The City does not offer other post employment benefits to its employees.

#### **NOTE – 9 LEASES**

The City receives rental income principally for real property from various agencies. Future minimum rental commitments under these leases are insignificant. Rental income from these sources totaled approximately \$198,591 for the year ended June 30, 2012.

#### **NOTE – 10 MUNICIPAL AID FUNDS**

The City receives municipal aid funding from the State of Kentucky. These funds are restricted for the specific purposes and may be shown in a separate fund; however, the City chooses to account for Municipal Aid through its general fund. Municipal Aid funds received for the year amounted to \$148,613. At the end of the year, there were no funds remaining.

#### **NOTE – 11 LOCAL GOVERNMENT ECONOMIC ASSISTANCE**

The City receives LGEA funding from the State of Kentucky. The funds are restricted for specific purposes, and, the City chooses to account for LGEA revenues and expenditures through its general fund. Local Government Economic Assistance funds received for the year amounted to \$86,218. At the end of the year, there were no funds remaining.

#### **NOTE – 12 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the City participates in the Kentucky League of Cities Insurance Services. The City pays an annual premium

to each fund for coverage. Workers' Compensation premiums are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications.

In accordance with KRS 65.067, the City bonds officials or employees who handle public funds in an amount covering the maximum amount they may have under their control at any given time. This statute applies to all officers, officials, and employees of all local governments who handle public funds in an execution of their duties. In order to comply with the regulation, the City purchases insurance bonds through various agencies.

There has been no reduction in insurance coverage from the previous year in any of the City's policies. In addition, there have been no settlements in excess of the City's coverage in the past three years.

## CITY OF CORBIN, KENTUCKY

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2012

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#### NOTE – 13 RESTRICTED NET ASSETS

Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. A schedule of restricted net assets is presented below:

Restricted for capital additions	\$ <u>38,078</u>
Total restricted net assets	\$ <u>38,078</u>

#### NOTE – 14 SUBSEQUENT EVENTS

The City's management has evaluated subsequent events through December 10, 2012, the date which the financial states were available to be issued. Management has noted no issues that affect the current financial statements.

## **SUPPLEMENTARY INFORMATION**

## CITY OF CORBIN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
REVENUES	\$ 6,832,258	\$ 6,975,258	\$ 7,219,084	\$ 243,826
EXPENDITURES				
General government	1,350,712	843,258	723,474	(119,784)
Police department	1,780,069	1,900,000	1,895,965	(4,035)
Fire department	1,094,825	1,190,000	1,227,414	37,414
Public works	1,610,104	1,805,500	1,740,043	(65,457)
Recycling center	163,198	400,000	384,591	(15,409)
Building inspection	117,364	120,000	116,939	(3,061)
Parks and recreation	479,436	595,000	586,774	(8,226)
Special projects	86,550	21,500	157,519	136,019
Total expenditures	6,682,258	6,875,258	6,832,719	(42,539)
OTHER FINANCING SOURCES				
Loan proceeds	-	-	-	-
Lease proceeds	-	-	-	-
Total other financing sources	-	-	-	-
OTHER FINANCING USES				
Proceeds from sale of assets	-	-	111,105	111,105
Proceeds from debt			8,048	8,048
Refinancing debt service				-
Bonded debt service	(150,000)	(100,000)	(94,006)	(5,994)
Total other financing sources	(150,000)	(100,000)	25,147	(125,147)
Net Change in Fund Balance	-	-	411,512	411,512
Fund balance, July 1, 2011	3,290,376	3,290,376	3,290,376	-
Fund balance June 30, 2012	\$ 3,290,376	\$ 3,290,376	\$ 3,701,888	\$ 411,512

The budget was exceeded in the current year.

See accompanying notes.

**CITY OF CORBIN, KENTUCKY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**PENSION TRUST FUND**

**SCHEDULE OF FUNDING PROGRESS**

**June 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2005	\$ 781,966	\$ 6,890,979	\$ 6,109,013	11%	\$ 186,531	3275%
7/1/2008	\$ 962,413	\$ 7,028,593	\$ 6,066,180	14%	\$ 118,322	5127%
7/1/2011	\$ 745,281	\$ 5,968,251	\$ 5,222,970	12%	\$ -	N/A

Fiscal Year	Annual Pension Cost	Percentage Contributed
2008	\$ 492,511	78%
2009	\$ 424,769	95%
2010	\$ 428,564	90%
2011	\$ 427,853	94%
2012	\$ 368,802	113%

Actuarial valuation date	July 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Amortization period open	20 years
Remaining amortization period	19 years
Asset valuation method	Market

Actuarial assumptions	
Investment rate of return	4%
Projected salary increase	N/A
Inflation rate	N/A



## **CITY OF CORBIN, KENTUCKY**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION** **Year ended June 30, 2012**

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#### **Note A - Budgets and Budgetary accounting**

The City follows procedures pursuant to KRS 91A.030 in establishing the budgetary data reflected in the financial statements as follows:

1. Prior to May 1 of each year, the Mayor submits to the Corbin City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between categories within each department; however, any revisions that alter the total expenditures of any fund must be approved by the Corbin City Commission.
5. Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Operating transfers required for debt service are accounted for in the budget of the City's general fund.
6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Actual expenditures may not exceed the legally adopted budget for any given fund.
7. The budget for the fiscal year ending June 30, 2012 was amended during the year. The amendment was approved in the same manner as the original budget was adopted.

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Mayor and Commissioners  
City of Corbin  
Corbin, Kentucky

We have audited the financial statements of the City of Corbin, Kentucky as of and for the year ended June 30, 2012, and have issued our report thereon dated December 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Corbin, Kentucky's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of basic 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Corbin, Kentucky as of and for the year ended June 30, 2012 in accordance with auditing standards generally accepted in the United States of America, we considered the City of Corbin, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial recording. Accordingly we do not express an opinion on the effectiveness of the Governmental Units internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore there can be no assurance that such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to material weaknesses.

A control deficiency 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 misstatements on a timely basis. A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following control deficiencies on the City of Corbin's internal control to be material weaknesses.

- There is a failure to establish sufficient controls over accounting for fixed assets.
- There is a failure to insure that annual audits are performed on all component units.
- There is a failure to present the Arena Fund budget even though it was prepared.
- There is a failure to timely record transactions of the Corbin Arena.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. We consider the following control deficiencies to be significant deficiencies.

- There is a failure to provide formal fraud training for City employees.
- There is a failure to establish sufficient controls over accounting for fixed assets.
- There is a failure to insure that annual audits are performed on all component units.
- There is a failure to present the Arena Fund budget even though it was prepared.
- There is a insufficient accounting processes in place in regard to the decentralized Arena Fund accounting.
- There is a failure to properly close the books in regard to subsequent payments and receipts although the City management is aware of the proper procedure.
- There is a failure of City management to be able produce GAAP financial statements; however, the City management does indicate an understanding of the underlying financial assertions upon which the GAAP financial statements are produced.

This report is intended solely for the information of management of the City of Corbin, Kentucky, the City of Corbin City Commission, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Cloyd & Associates, PSC*

December 10, 2012  
Cloyd & Associates, PSC  
Corbin, Kentucky