

CITY OF CORBIN  
Corbin, Kentucky

BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2010  
with  
REPORT OF INDEPENDENT AUDITORS

## CONTENTS

<b>Report of Independent Auditors .....</b>	<b>1</b>
<b>Management's Discussion and Analysis.....</b>	<b>3</b>
<b>Basic Financial Statements</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Assets .....	8
Statement of Activities.....	9
<b>Fund Financial Statements</b>	
Balance Sheet – Governmental Funds.....	10
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets .....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	13
Statement of Fiduciary Net Assets – Fiduciary Funds.....	14
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds .....	15
<b>Component Unit Financial Statements</b>	
Statement of Net Assets – Discretely Presented Component Units .....	16
Statement of Activities – Discretely Presented Component Units.....	17
<b>Notes to Basic Financial Statements .....</b>	<b>18</b>

## Supplementary Information

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund .....	36
Pension Trust Fund – Schedule .....	37
Notes to Required Supplementary Information.....	38
Combining Balance Sheet – Nonmajor Governmental Funds.....	39
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	40
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	41

## REPORT OF INDEPENDENT AUDITORS

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 as noted, each major fund and the aggregate remaining fund information of the City of Corbin, Kentucky as of and for the year ended June 30, 2010, 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, 2010 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, 2010 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 28, 2010, 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 36 and 37, 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The supplementary information on pages 36-38 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Cloyd & Associates, PSC*

December 28, 2010  
Cloyd & Associates, PSC  
Corbin, KY

## CITY OF CORBIN, KENTUCKY

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

Year ended June 30, 2010

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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, 2010. 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 \$3,215,720 comprised of \$619,019 in restricted cash and \$2,601,431 in unrestricted cash. The prior year's cash balance was \$3,056,534 of which \$455,003 was restricted and \$2,601,431 was unrestricted. The increase in cash is primarily due to restricted cash, and additional loans.
- The City's combined net assets decreased by \$1,528,135 or 4% between 2009 and 2010.
- The General Fund had approximately \$8.7 million in revenue (excluding debt issues, transfers, and proceeds from the sale of assets), 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 \$359,572 which represents approximately a 16% increase relative to the prior year. The increase is primarily due to new debt issues including short term loans.
- The City's total long-term debt increased by \$2,679,407, relative to 2009 primarily due to debt issues for construction of the Arena.
- The City completed construction of an arena during the year. The State of Kentucky Governor's Office of Local Development has provided a \$12 million grant for its construction. The grant is 100% expended and the City has borrowed \$3,000,000 during the year. The City has received grants from other sources for the majority of the balance. The City estimates the total cost of the Arena and improvements to the adjoining area to be approximately \$30 million.

#### 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.

# CITY OF CORBIN, KENTUCKY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) Year ended June 30, 2010

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

The government-wide financial statements outline functions of the City that are primarily supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police department, fire protection, public works, recycling, building inspection, parks and recreation, 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 35 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 \$34 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, 2010**

**The City as a Whole**

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

	Governmental Activities		Total	
	2009	2010	2009	2010
Current and other assets	\$ 4,491,863	\$ 4,595,738	\$ 4,491,863	\$ 4,595,738
Capital assets, net of depreciation	43,627,959	44,437,199	43,627,959	44,437,199
<b>Total Assets</b>	<b>48,119,822</b>	<b>49,032,937</b>	<b>48,119,822</b>	<b>49,032,937</b>
Short-term liabilities	2,589,881	2,519,577	2,589,881	2,519,577
Other liabilities	10,151,369	12,662,923	10,151,369	12,662,923
<b>Total Liabilities</b>	<b>12,741,250</b>	<b>15,182,500</b>	<b>12,741,250</b>	<b>15,182,500</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	34,370,786	32,552,571	34,370,786	32,552,571
Restricted	149,754	401,807	149,754	401,807
Unrestricted	858,032	896,059	858,032	896,059
<b>Total Net Assets</b>	<b>\$ 35,378,572</b>	<b>\$ 33,850,437</b>	<b>\$ 35,378,572</b>	<b>\$ 33,850,437</b>

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

	Governmental Activities		Total	
	2009	2010	2009	2010
<b>Revenues</b>				
Program revenues				
Charges for services	\$ 2,392,478	\$ 2,255,852	\$ 2,392,478	\$ 2,255,852
Operating Grants & contributions	1,272,236	1,513,277	1,272,236	1,513,277
Capital Grants & contributions	2,705,427	350,650	2,705,427	350,650
General revenues				
Local taxes	4,294,266	4,174,441	4,294,266	4,174,441
Licenses and permits	400,407	383,083	400,407	383,083
Rent	284,021	289,666	284,021	289,666
Earnings on investments	127,681	58,732	127,681	58,732
Other	-	(531,315)	-	(531,315)
<b>Total revenues</b>	<b>\$ 11,476,516</b>	<b>\$ 8,494,386</b>	<b>\$ 11,476,516</b>	<b>\$ 8,494,386</b>
<b>Expenses</b>				
General government	2,583,116	3,271,524	2,583,116	3,271,524
Police department	1,698,030	1,784,901	1,698,030	1,784,901
Fire department	1,146,105	1,150,081	1,146,105	1,150,081
Public works	1,556,925	1,526,629	1,556,925	1,526,629
Recycling center	197,465	170,787	197,465	170,787
Building inspector	134,120	112,065	134,120	112,065
Parks and recreation	257,428	458,938	257,428	458,938
Special projects	1,550,450	1,265,266	1,550,450	1,265,266
Interest on debt service	197,302	282,330	197,302	282,330
<b>Total expenses</b>	<b>\$ 9,320,941</b>	<b>\$ 10,022,521</b>	<b>\$ 9,320,941</b>	<b>\$ 10,022,521</b>
<b>Increase/(Decrease) in net assets</b>	<b>\$ 2,155,575</b>	<b>\$ (1,528,135)</b>	<b>\$ 2,155,575</b>	<b>\$ (1,528,135)</b>



**CITY OF CORBIN, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Year ended June 30, 2010**

There has been some deterioration in the overall financial position of the City since the prior year. The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for fiscal years 2010 and 2009:

	<u>2009</u>	<u>2010</u>
<b>Revenues and other financing sources</b>		
Tax and related revenue	\$ 4,294,266	\$ 4,174,441
Licenses and permits	400,407	383,083
Fees for services	2,392,478	1,337,618
Rent	201,976	289,666
Investments	127,305	58,732
Intergovernmental	3,977,662	2,484,916
Other	-	297,245
Transfers	319,311	320,726
Debt issue	8,000,000	3,190,095
<b>Total Revenue and other financing sources</b>	<u>19,713,405</u>	<u>12,536,522</u>
<b>Expenditures and other financing uses</b>		
General government	2,356,176	2,988,355
Police department	1,655,609	1,889,027
Fire department	1,211,600	1,226,514
Public works	1,543,398	1,526,292
Recycling center	215,305	164,943
Building inspection	133,026	112,183
Parks and recreation	653,890	790,429
Special projects	14,317,859	3,017,755
Debt service	158,070	140,726
Transfers	319,311	320,726
<b>Total expenditures and other financing uses</b>	<u>22,564,244</u>	<u>12,176,950</u>
<b>Net change in fund balance</b>	<u>\$ (2,850,839)</u>	<u>\$ 359,572</u>

**General Fund Revenue**

The majority of revenue, net of debt, was derived from tax revenue (48% in 2010 and 41% in 2009) and intergovernmental revenue (28% in 2010 and 35% in 2009). Fees for services made up 15% of revenue in 2010 and 21% in 2009. Interest income made up 1% of total revenues in 2010 and 1% in 2009. The primary reason for the changes was decreased grant revenue associated with the Arena and other projects. Overall expenditures increased by 7.5% due primarily to depreciation and increased Arena expense.

**CITY OF CORBIN, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Year ended June 30, 2010**

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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, 2010**

	Primary Government		Component Units
	Governmental Activities	Total	
<b>ASSETS</b>			
Cash and cash equivalents - unrestricted	\$ 2,596,701	\$ 2,596,701	\$ 272,129
Restricted cash and cash equivalents	619,019	619,019	-
Taxes receivable:			
Restaurant tax	259,332	259,332	-
Insurance tax	336,194	336,194	-
Occupational tax	160,035	160,035	-
Other tax	11,731	11,731	32,264
Taxes receivable - delinquent	68,651	68,651	-
Estimated uncollectible (taxes)	(68,651)	(68,651)	-
Grants receivable	-	-	-
Other receivables (net of allowance for uncollectible accounts)	202,011	202,011	-
Due from primary government	-	-	-
Prepaid expense	1,649	1,649	1,023
Due from component units	196,543	196,543	259,332
Due from agencies	-	-	-
Other assets	42,440	42,440	12,278
Bond issuance costs	170,083	170,083	-
Investment in fixed assets, net			
Non-depreciable	2,593,027	2,593,027	-
Depreciable	41,844,172	41,844,172	40,306
<b>Total assets</b>	<b>49,032,937</b>	<b>49,032,937</b>	<b>617,332</b>
<b>LIABILITIES</b>			
Accounts payable	867,700	867,700	3,365
Accrued expenses	294,828	294,828	-
Due to component units	259,332	259,332	-
Due to primary government	-	-	194,794
Accrued interest	39,860	39,860	-
Accrued compensated absences - current	19,700	19,700	-
Deferred arena revenue	42,723	42,723	-
Short term loan payable	330,000	330,000	-
Current portion of capital leases due	477,593	477,593	-
Current portion of long-term notes payable	107,841	107,841	-
Current portion of bonds payable	80,000	80,000	-
Pension liability payable	1,180,173	1,180,173	-
Long-term portion of leases payable	10,175,375	10,175,375	-
Long-term portion of notes payable	128,902	128,902	-
Long-term portion of bonds payable	1,085,000	1,085,000	-
Non-current portion of accrued compensated absences	93,473	93,473	-
<b>Total liabilities</b>	<b>15,182,500</b>	<b>15,182,500</b>	<b>198,159</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	32,552,571	32,552,571	40,306
Restricted for:			
Debt service	74,588	74,588	-
Capital expenditures	327,219	327,219	-
Unrestricted	896,059	896,059	378,867
<b>Total net assets</b>	<b>\$ 33,850,437</b>	<b>\$ 33,850,437</b>	<b>\$ 419,173</b>

See accompanying notes.

CITY OF CORBIN, KENTUCKY

STATEMENT OF ACTIVITIES  
Year ended June 30, 2010

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	\$ 3,271,524	\$ 947,615	\$ 1,124,699	\$ 292,295	\$ (906,915)	\$ (906,915)	(1,223,879)
Police Department	1,784,901	15,225	107,914	2,000	(1,659,762)	(1,659,762)	-
Fire Department	1,150,081	168	74,194	21,561	(1,054,158)	(1,054,158)	-
Public Works	1,526,629	1,185,138	206,470	-	(135,021)	(135,021)	-
Recycling Center	170,787	43,583	-	-	(127,204)	(127,204)	-
Building Inspection	112,065	2,801	-	-	(109,264)	(109,264)	-
Parks and Recreation	458,938	61,322	-	34,794	(362,822)	(362,822)	-
Special Projects	1,265,266	-	-	-	(1,265,266)	(1,265,266)	-
Interest on Long-Term Debt	282,330	-	-	-	(282,330)	(282,330)	-
<b>Total primary government</b>	<b>\$ 10,022,521</b>	<b>\$ 2,255,852</b>	<b>\$ 1,513,277</b>	<b>\$ 350,650</b>	<b>(5,902,742)</b>	<b>(5,902,742)</b>	<b>(1,223,879)</b>
			<b>General revenues</b>				
			Taxes:				
			Property	816,227	816,227	-	-
			Motor vehicle	97,495	97,495	-	-
			Occupational	1,278,331	1,278,331	-	-
			Municipal insurance	1,485,570	1,485,570	-	-
			Restaurant	-	-	965,180	-
			Other	183,702	183,702	108,286	-
			Municipal fees in lieu of taxes	313,116	313,116	-	-
			Licenses and permits	383,083	383,083	-	-
			Rent	289,666	289,666	-	-
			Earnings on investments	58,732	58,732	1,104	-
			Other	-	-	561	-
			Loss on disposal of assets	(531,315)	(531,315)	-	-
			<b>Total general revenues</b>	<b>4,374,607</b>	<b>4,374,607</b>	<b>1,075,131</b>	<b>-</b>
			<b>Change in net assets</b>	<b>(1,528,135)</b>	<b>(1,528,135)</b>	<b>(148,748)</b>	<b>-</b>
			<b>Net assets as of July 1, 2009</b>	<b>35,378,572</b>	<b>35,378,572</b>	<b>567,921</b>	<b>-</b>
			<b>Net assets as of June 30, 2010</b>	<b>\$33,850,437</b>	<b>\$33,850,437</b>	<b>419,173</b>	<b>-</b>

See accompanying notes.

**CITY OF CORBIN, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2010**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents - unrestricted	\$ 2,517,186	\$ 79,515	\$ 2,596,701
Restricted cash and cash equivalents	544,431	74,588	619,019
Taxes receivable			
Restaurant tax	259,332	-	259,332
Insurance tax	336,194	-	336,194
Occupational tax	160,035	-	160,035
Other tax	11,731	-	11,731
Taxes receivable - delinquent	68,651	-	68,651
Estimated uncollectible (taxes)	(68,651)	-	(68,651)
Grants receivable		-	-
Other receivables (net of allowance for uncollectible accounts)	202,011	-	202,011
Prepaid expenses	1,649	-	1,649
Due from component units	196,543	-	196,543
Due from agencies			-
Other assets	42,440	-	42,440
<b>Total assets</b>	<u>\$ 4,271,552</u>	<u>\$ 154,103</u>	<u>\$ 4,425,655</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 867,700	\$ -	\$ 867,700
Accrued expenses	294,828	-	294,828
Deferred arena revenue	42,723	-	42,723
Short-term obligations payable	330,000		
Current portion of accrued compensated absences	19,700	-	19,700
Due to component units	259,332	-	259,332
<b>Total liabilities</b>	<u>1,814,283</u>	<u>-</u>	<u>1,484,283</u>
<b>Fund balances</b>			
Reserved fund balances:			
Capital expenditures	327,219	-	327,219
Debt service	-	74,588	74,588
Prepaid expenses	1,649	-	1,649
Inventory	43,440	-	43,440
Unreserved fund balances	2,084,961	79,515	2,164,476
<b>Total fund balances</b>	<u>2,457,269</u>	<u>154,103</u>	<u>2,611,372</u>
<b>Total liabilities and fund balances</b>	<u>\$ 4,271,552</u>	<u>\$ 154,103</u>	<u>\$ 4,425,655</u>

See accompanying notes.

**CITY OF CORBIN, KENTUCKY**

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

**June 30, 2010**

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Total fund balances - governmental funds	\$ 2,611,372
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 \$58,817,465 and the accumulated depreciation is \$14,380,266.	44,437,199
Bond issue costs are not current financial resources and, therefore, are not reported as assets in governmental funds.	170,083
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.	(12,054,711)
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.	(1,180,173)
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.	(93,473)
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>(39,860)</u>
Total net assets - governmental activities	<u>\$ 33,850,437</u>

See accompanying notes.

**CITY OF CORBIN, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year ended June 30, 2010**

	General Fund	Other Governmental	Total Governmental Funds
<b>Revenues</b>			
Taxes:			
Property	\$ 816,227	\$ -	\$ 816,227
Motor vehicle	97,495	-	97,495
Occupational	1,278,331	-	1,278,331
Municipal insurance	1,485,570	-	1,485,570
Other	183,702	-	183,702
Revenue in lieu of tax	313,116	-	313,116
Licenses and permits	383,083	-	383,083
Fees for services	2,255,852	-	2,255,852
Rent	30,220	259,446	289,666
Interest	57,702	1,030	58,732
Intergovernmental revenues	1,566,682	-	1,566,682
Other	297,245	-	297,245
Total revenues	<u>8,765,225</u>	<u>260,476</u>	<u>9,025,701</u>
<b>Expenditures</b>			
General government	2,784,164	204,191	2,988,355
Police department	1,889,027	-	1,889,027
Fire department	1,226,514	-	1,226,514
Public works	1,526,292	-	1,526,292
Recycling center	164,943	-	164,943
Building inspection	112,183	-	112,183
Parks and Recreation	790,429	-	790,429
Special projects	3,017,755	-	3,017,755
Debt Service	-	140,726	140,726
Total expenditures	<u>11,511,307</u>	<u>344,917</u>	<u>11,856,224</u>
Excess (deficit) of revenues over (under) expenditures	(2,746,082)	(84,441)	(2,830,523)
<b>Other financing sources (uses)</b>			
Proceeds from debt	3,190,095	-	3,190,095
Operating transfers in	180,000	140,726	320,726
Operating transfers out	(140,726)	(180,000)	(320,726)
Total other financing sources (uses)	<u>3,229,369</u>	<u>(39,274)</u>	<u>3,190,095</u>
Net change in fund balance	483,287	(123,715)	359,572
Fund balances, July 1, 2009	<u>1,973,982</u>	<u>277,818</u>	<u>2,251,800</u>
Fund balances, June 30, 2010	<u>\$ 2,457,269</u>	<u>\$ 154,103</u>	<u>\$ 2,611,372</u>

See accompanying notes.

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, 2010

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Net change in total fund balances - governmental funds	\$ 359,572
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 capital outlays (\$2,822,105) exceeds depreciation expense (\$1,481,550) for the year.	1,340,555
Bond issuance costs are amortized over the life of the related bonds on the statement of activities.	(10,670)
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.	614,921
Capital debt is shown as other sources and uses of funds in the governmental statements but is a liability in the government wide statements	(3,231,707)
The increase 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.	(43,583)
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.	(6,869)
Loss on disposal of assets is not shown as an expense in the general fund but is shown but is presented as a loss in the government wide statement of activities	(531,315)
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>(19,039)</u>
Change in net assets - governmental activities	<u>\$ (1,528,135)</u>

See accompanying notes.



CITY OF CORBIN, KENTUCKY

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2010

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	Agency Funds	Pension Trust Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 338,393
Investments	-	468,869
Receivables		
Taxes - delinquent	190,565	38,902
Estimated uncollectible - taxes	(190,565)	(38,902)
Interest	-	928
	<u>-</u>	<u>808,190</u>
<b>Total Assets</b>	<u>-</u>	<u>808,190</u>
<b>LIABILITIES</b>		
Due to agencies	-	-
	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits	<u>\$ -</u>	<u>\$ 808,190</u>

See accompanying notes.

**CITY OF CORBIN, KENTUCKY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010**

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**ADDITIONS**

Tax revenue	\$ 372,475
Employee contributions	-
Interest	12,456
Other	<u>50</u>
Total revenues	<u>384,981</u>

**DEDUCTIONS**

Benefits	486,769
Plan administration	<u>6,300</u>
Total expenditures	<u>493,069</u>

Increase/(Decrease) in net assets (108,088)

Net Assets, July 1, 2009 916,278

Net Assets Held in Trust for Pension Benefits, June 30, 2010 \$ 808,190

See accompanying notes.

**CITY OF CORBIN, KENTUCKY  
STATEMENT OF NET ASSETS  
DISCRETELY PRESENTED COMPONENT UNITS  
June 30, 2010**

	Corbin Tourism and Convention Commission	Total Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 272,129	\$ 272,129
Taxes receivable		-
Transient room tax receivable	29,549	29,549
Other	2,715	2,715
Due from primary government	259,332	259,332
Other receivables	12,278	12,278
Prepaid expenses	1,023	1,023
Investment in fixed assets, net	-	-
Non-depreciable	-	-
Depreciable	40,306	40,306
<b>Total assets</b>	<u>617,332</u>	<u>617,332</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Accounts payable	3,365	3,365
Arena operations funding payable	194,794	191,969
<b>Total liabilities</b>	<u>198,159</u>	<u>195,334</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	40,306	40,306
Unrestricted	378,867	378,867
<b>Total net assets</b>	<u>\$ 419,173</u>	<u>\$ 419,173</u>

See accompanying notes.

CITY OF CORBIN, KENTUCKY  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2010

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Corbin Tourism Convention Center	Total
Corbin Tourism and Convention Center						
Governmental type activities	\$ 1,254,541	\$ 18,385	\$ 12,277	\$ -	\$ (1,223,879)	\$ (1,223,879)
<b>Total primary government</b>	<b>\$ 1,254,541</b>	<b>\$ 18,385</b>	<b>\$ 12,277</b>	<b>\$ -</b>	<b>(1,223,879)</b>	<b>(1,223,879)</b>
<b>General revenues</b>						
Taxes:						
					-	-
					965,180	965,180
					108,286	108,286
					-	-
					1,104	1,104
					561	561
					<u>1,075,131</u>	<u>1,075,131</u>
					(148,748)	(148,748)
					<u>567,921</u>	<u>567,921</u>
					<u>\$ 419,173</u>	<u>\$ 419,173</u>

See accompanying notes.

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2010

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### 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 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, 2010

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### 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, 2010

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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 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.

Additionally, the City reports the following fund types:

Special Revenue Funds – The special revenue fund accounts for the activities of blended component units.

Debt Service Funds – The debt service fund accounts for assets accumulated to pay certain future debt service.

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.

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

## CITY OF CORBIN, KENTUCKY

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2010

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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, 2010, the allowance for uncollectible accounts for governmental activities was \$17,419. 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, 2010

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### 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 \$170,083 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, 2010

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### **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**

In the fund financial statements, governmental fund report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if any, of fund balance represent tentative management plans that are subject to change.

### **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.

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2010

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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, 2010 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.

### **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, 2010, the carrying amount of the City's cash and cash equivalents was \$3,215,720 with a bank balance of \$3,360,991. Of the total cash balance, \$1,075,610 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

**CITY OF CORBIN, KENTUCKY**

**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**

**Year ended June 30, 2010**

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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, \$619,019 is considered restricted. Restricted cash is comprised of \$327,218 restricted for capital improvement and operations, \$74,588 restricted for debt service, and \$217,213 restricted for operations. 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, 2010, 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.

**B. London-Corbin Airport**

During the fiscal year ended June 30, 2001, the City of Corbin, Kentucky and the City of London Finance Corporation entered into an agreement as co-guarantors of a one-hundred thousand dollar (\$100,000) loan from the Commonwealth of Kentucky, Kentucky Aviation Authority to the London-Corbin Airport. The balance on the loan at June 30, 2010 is \$10,000.

**C. 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, 2010 is \$330,000.

A schedule of activity is presented below:

<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
\$ -	\$ 330,000	\$ -	\$ 330,000

**CITY OF CORBIN, KENTUCKY**

**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**

**Year ended June 30, 2010**

**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, 2010 was as follows:

<b>Governmental activities</b>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2010</u>
Land	\$ 2,593,027	\$ -	\$ -	2,593,027
Buildings and improvements	47,407,319	1,333,896	1,018,242	47,722,973
Improvements other than buildings	1,987,361	924,553	-	2,911,914
Equipment	4,911,201	524,127	-	5,435,328
Other	113,803	-	-	113,803
Construction in progress	-	39,529	-	39,529
<b>Total cost</b>	<u>\$ 57,012,711</u>	<u>\$ 2,822,105</u>	<u>\$ 1,018,242</u>	<u>\$ 58,816,574</u>
Less: Accumulated depreciation				
Buildings and improvements	\$ 8,595,947	\$ 946,904	\$ 486,927	\$ 9,055,924
Improvements other than buildings	792,304	301,821	-	1,094,125
Equipment	3,971,468	227,135	-	4,198,603
Other	25,033	5,690	-	30,723
<b>Total accumulated depreciation</b>	<u>\$ 13,384,752</u>	<u>\$ 1,481,550</u>	<u>\$ 486,927</u>	<u>\$ 14,379,375</u>
<b>Governmental activities, net   capital assets</b>	<u>\$ 43,627,959</u>	<u>\$ 1,340,555</u>	<u>\$ 531,315</u>	<u>\$ 44,437,199</u>

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

General government	\$ 1,168,877
Police department	115,807
Fire department	16,384
Public works	80,771
Corbin recycling center	8,844
Parks and recreation	90,126
Building inspector	741
	<u>\$ 1,481,550</u>

**CITY OF CORBIN, KENTUCKY**

**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**

Year ended June 30, 2010

**NOTE 5 – CAPITAL ASSETS (continued)**

During the year ended June 30, 2010, the City, in accordance with an existing agreement transferred ownership of Cooper Heath Apartments to the Corbin Housing Authority, a related organization. Because the asset was not fully depreciated, the transfer resulted in a loss on disposal of assets in the amount of \$531,315.

**NOTE – 6 LONG-TERM LIABILITIES**

**A. Bonds Payable**

On September 1, 2000, the City issued General Obligation Bonds, Series 2000 in the principal amount of \$1,755,000 for a public project consisting of additions and renovations to the Corbin City Hall. Net proceeds after bond issuance costs were \$1,719,904. The bond principal and interest are to be repaid over a period of twenty years on March 1 and September 1 of each year. Payments have historically been made through the City's debt service fund. The bond bears variable interest in range from 4.2% to 5.2%. The bond maturities and interest as of June 30, 2010 are as follows:

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2011	\$ 80,000	\$ 56,966
2012	85,000	53,026
2013	90,000	48,792
2014	95,000	44,248
2015	100,000	39,371
2015-2019	580,000	112,517
2020-2021	135,000	3,810
	<u>\$ 1,165,000</u>	<u>\$ 358,730</u>

**B. Notes Payable**

**Kentucky League of Cities**

The City of Corbin entered into an assistance agreement with the Kentucky League of Cities July 8, 2006 for a \$125,000 loan to purchase a street sweeper. The City will pay semi-annual payments through the general fund, including interest at 3%, to the Kentucky League of Cities as follows:

Fiscal Year Ended June 30,	<u>Principal</u>	<u>Interest</u>
2011	\$ 2,250	\$ 23
	<u>\$ 2,250</u>	<u>\$ 23</u>

**CITY OF CORBIN, KENTUCKY**

**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**

**Year ended June 30, 2010**

**Cumberland Valley National Bank (Recreation)**

During the fiscal year ended June 30, 2007, the City issued a note payable to Cumberland Valley National Bank for the purpose of various upgrades related to parks and recreation. The note bears and initial interest rate of 5.37% and an initial maturity date of December 12, 2007. However, it is the intention of the City to retire the note over a five year period. The balance of the note at June 30, 2010 is \$83,540. The City will pay monthly payments of \$3,750 through the general fund, including interest, to Cumberland Valley National Bank as follows:

Fiscal Year Ended June 30,	<u>Principal</u>	<u>Interest</u>
2011	<u>\$ 41,335</u>	<u>\$ 1,179</u>
	<u>\$ 41,335</u>	<u>\$ 1,179</u>

**Caterpillar Financial Services**

During the fiscal year ended June 30, 2010, the City issued a note payable to Caterpillar Financial Services in the amount of \$19,000 for the purchase of an excavator. The note does not bear interest and the City considers any potential imputed interest to be immaterial. The maturity date is July 1, 2010. The City will pay monthly payments of \$2,875 through the general fund to Caterpillar Financial Services as follows:

Fiscal Year Ended June 30,	<u>Principal</u>	<u>Interest</u>
2011	<u>\$ 2,876</u>	<u>-</u>
	<u>\$ 2,876</u>	<u>\$ -</u>

**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 three years as follows:

Fiscal Year Ended June 30,	<u>Principal</u>	<u>Interest</u>
2011	<u>\$ 61,380</u>	<u>\$ 5,275</u>
2012	<u>63,405</u>	<u>3,250</u>
2013	<u>65,497</u>	<u>1,159</u>
	<u>\$ 190,282</u>	<u>\$ 9,684</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2010

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, 2010 are:

Fiscal Year Ended June 30,	Amount
2011	\$ 65,925
2012	63,675
2013	66,268
	<u>195,868</u>
Less amount representing interest, variable	10,868
Present value of minimum lease payments	<u>\$ 185,000</u>

Recreation equipment

The City entered into long-term non-cancelable leases during the year ended June 30, 2010 for the acquisition of various equipment for the Recreation 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 monthly payments including an amount representing interest ranging from 3.0% to 5.9% to with the final payment due on May 5, 2013. The payments will be 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, 2010 are:

Fiscal Year Ended June 30,	Amount
2011	\$ 8,786
2012	6,797
2013	2,582
	<u>18,165</u>
Less amount representing interest, variable	4,812
Present value of minimum lease payments	<u>\$ 13,353</u>



CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2010

D. General Obligation Lease

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 debt is to be repaid in monthly payments over a period of 20 years per lease. 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, 2010 are:

Year ending June 30,	Principal Payment	Interest and Fees	Total
2011	\$ 410,241	\$ 297,673	\$ 707,914
2012	423,865	286,246	710,111
2013	439,475	273,176	712,651
2014	454,256	260,782	715,038
2015	470,043	247,556	717,599
2016	485,861	234,311	720,172
2017	503,456	219,596	723,052
2018	520,557	205,282	725,839
2019	538,647	190,150	728,797
2020	556,987	174,820	731,807
2021	576,861	158,219	735,080
2022	596,629	141,702	738,331
2023	620,365	121,386	741,751
2024	635,600	109,662	745,262
2025	661,092	87,897	748,989
2026	683,922	68,855	752,777
2027	707,698	49,032	756,730
2028	732,259	28,564	760,823
2029	419,966	8,114	428,080
2030	16,835	139	16,974
	<u>\$ 10,454,615</u>	<u>\$ 3,163,162</u>	<u>\$ 13,617,777</u>

Changes in long-term liability for the year ended June 30, 2010 were as follows:

Series 2000 G.O. Bonds	\$ 1,245,000	\$ -	\$ 80,000	\$ 1,165,000
KADD 2002 Lease	245,000	-	60,000	185,000
KLC Note Payable	30,805	-	28,554	2,251
Cumberland Valley National Bank	83,541	-	42,206	41,335
KLC Leases	7,833,580	3,000,000	378,966	10,454,614
Caterpillar Financial Services Note Payable	-	19,000	16,124	2,876
Hometown Bank Note Payable	-	190,282	-	190,282
Recreation Leases	-	22,424	9,071	13,353
Net pension obligation	1,136,590	43,583	-	1,180,173
Accrued absences	94,134	19,039	-	113,173
	<u>\$ 10,668,650</u>	<u>\$ 3,294,328</u>	<u>\$ 614,921</u>	<u>\$ 13,348,057</u>

# CITY OF CORBIN, KENTUCKY

## NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2010

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Capital assets under capital lease at June 30, 2010 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% (8% 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 16.16% (32.97% for hazardous-pay employees) of its gross payroll to the plan. Total contributions for the year ending June 30, 2010 were \$888,780 of which the City contributed \$702,680 and the employees contributed \$186,099. The City's contributions to the County Employee's Retirement systems for the years ending June 30, 2010, 2009 and 2008 were \$702,680 \$629,068, and \$677,194 respectively. The City's contributions were equal to the contractually required contributions as set by state statutes.

#### 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 on-half of the employee's salary, including incentive pay, earned during the last year of employment. Also, the pension plan provides for death and disability benefits. All pension, death, and disability benefits are determined by state statutes. The Fund is closed to new participants.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2010

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The City uses the accrual basis of accounting for the plan. 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. There were two investments representing more than 5% of the net assets available for benefits. Long term certificates of deposit in the amounts of \$100,000 and \$360,612 represented 12.34% and 45.64% 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 involving the pension trust.

Under provisions of state statutes, all full-time participating employees must contribute 7.65% of their gross earnings to the pension plan. 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. Of the total, two were active and the balance is made up of retired or terminated participants with deferred vested benefits.

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	\$	438,564
Contributions made	\$	384,981
Actuarial valuation date		July 1, 2008
Actuarial cost method		Entry age normal
Amortization method		Level dollar
Amortization period open		20 years
Remaining amortization period		18 years
Asset valuation method		Market
<b>Actuarial assumptions</b>		
Investment rate of return		4%
Projected salary increase		4%
Inflation rate		N/A

**CITY OF CORBIN, KENTUCKY**

**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**

**Year ended June 30, 2010**

**CITY THREE YEAR TREND**

Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation (Benefit)
6/30/2008	\$ 492,511	78.00%	\$ 1,116,122
6/30/2009	\$ 424,769	95.00%	\$ 1,136,590
6/30/2010	\$ 428,564	90.00%	\$ 1,180,173

**SCHEDULE OF FUNDING PROGRESS**

Acutarial 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
7/1/2000	1,134,833	4,763,985	3,629,152	24%	358,710	1012%
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%	65,425	9272%

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

Annual required contribution	\$ 429,194
Interest on net pension obligation	819
Adjustment to annual required contribution	(1,449)
Annual pension cost	428,564
Contributions made	<u>384,981</u>
Increase in net pension obligation	43,583
Net pension obligation at beginning of year	1,136,590
Net pension obligation at end of year	<u><u>\$ 1,180,173</u></u>

**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 \$289,666 for the year ended June 30, 2010.

**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 \$150,726. At the end of the year, none was restricted for road repairs and capital improvements.

**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 \$55,744. At the end of year, \$58,229 of 2009 and 2010 funds was restricted for purpose.

**CITY OF CORBIN, KENTUCKY**

**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**Year ended June 30, 2010**

**NOTE – 12 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the City participates in the Kentucky League of Cities Insurance Services. The City pays an annual premium to each fund for coverage. Workers' Compensation premiums are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications.

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

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

**NOTE – 13 TRANSFERS**

During the course of normal operations, the City may have several transactions between funds, including expenditures and transfers of resources primarily to provide services. The governmental fund financial statements generally reflect such transactions as transfers. A schedule of transfers occurring during the year is presented below:

Type	From Fund	To Fund	Amount	Purpose
Operating	City Hall Public Corporation	General	\$ 180,000	General
Operating	General Fund	Debt Service	\$ 140,726	Debt Service

**NOTE – 14 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 debt service	\$ 327,219
Restricted for capital additions	<u>74,588</u>
Total restricted net assets	<u>\$ 401,807</u>

**NOTE – 15 SUBSEQUENT EVENTS**

The City's management has evaluated subsequent events through December 28, 2010, the date which the financial states were available to be issued. Management noted that the City has determined not to renew its contract with SMG, the Arena management company, and instead manage the Arena internally. In addition management noted that the City has refunding certain debt issues and considering the possibility of additional refinancing. These issues do not affect the current financial statements and no provision has been made.

**CITY OF CORBIN, KENTUCKY**

**NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED**  
**Year ended June 30, 2010**

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**NOTE – 16 ARENA REVENUE**

The Arena at the David L. Williams Southeastern Kentucky Agriculture and Exposition Complex (Arena) is not a separate legal unit from the City. However, by contract the managing company of the Arena (SMG) is required to release a financial statement separate from the City designed to represent the operational activity of the Arena. For the year ended June 30, 2010 those financial statements were not audited by a separate auditor. The financial activity of the Arena is included in the City's general fund and indicate a gross income of \$918,234 and operational costs of \$1,485,495. Depreciation of the building and fixtures amounted to \$680,004 during the year and interest and debt cost amortization amounted to \$224,863.

**SUPPLEMENTARY INFORMATION**

CITY OF CORBIN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 Year Ended June 30, 2010

	General Fund			
	Original Budget	Final Budget	Actual	Over (Under) Budget
REVENUES	\$ 8,150,800	\$ 7,442,227	\$ 8,765,225	\$ 1,322,998
EXPENDITURES				
General government	931,912	1,097,575	2,784,164	1,686,589
Police department	1,744,195	1,860,000	1,889,027	29,027
Fire department	1,327,685	1,210,000	1,226,514	16,514
Public works	1,777,160	1,743,925	1,526,292	(217,633)
Recycling center	203,265	170,000	164,943	(5,057)
Building inspection	146,840	120,000	112,183	(7,817)
Parks and recreation	498,455	800,000	790,429	(9,571)
Special projects	4,447,621	3,300,000	3,017,755	(282,245)
Total expenditures	11,077,133	10,301,500	11,511,307	1,209,807
OTHER FINANCING SOURCES				
Loan proceeds	-	-	520,095	520,095
Lease proceeds	3,000,000	3,000,000	3,000,000	-
Total other financing sources	3,000,000	3,000,000	3,520,095	-
OTHER FINANCING USES				
Transfers from component units	-	-	180,000	180,000
Transfers to debt service	(140,727)	(140,727)	(140,726)	(1)
Total other financing sources	(140,727)	(140,727)	39,274	(180,001)
Net Change in Fund Balance	(3,067,060)	(3,000,000)	813,287	293,192
Fund balance, July 1, 2009	1,973,982	1,973,982	1,973,982	-
Fund balance June 30, 2010	\$ (1,093,078)	\$ (1,026,018)	\$ 2,787,269	\$ 293,192

The budget was exceeded in the current year. The budget comparison as presented includes \$1,485,495 of expense related to the operation of the Arena at the David L. Williams Southeastern Kentucky Agriculture and Exposition Center. The Arena is not a separate entity from the City and the expenses are included in the City's general fund. The expenses were not budgeted by the City. The budget comparison also includes gross revenue from the Arena of \$918,234.

See accompanying notes.



CITY OF CORBIN, KENTUCKY

REQUIRED SUPPLEMENTARY INFORMATION  
 PENSION TRUST FUND  
 SCHEDULE OF FUNDING PROGRESS  
 June 30, 2010

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]
7/1/2000	1,134,833	4,763,985	3,629,152	24%	358,710	1012%
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%	65,435	9271%

Fiscal Year	Annual Pension Cost	Percentage Contributed
2005	489,883	66%
2006	489,303	55%
2007	487,191	81%
2008	492,511	78%
2009	424,769	95%
2010	428,564	90%

Actuarial valuation date	July 1, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Amortization period open	20 years
Remaining amortization period	18 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	4%
Projected salary increase	4%
Inflation rate	N/A

# CITY OF CORBIN, KENTUCKY

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION Year ended June 30, 2010

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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, 2010 was amended during the year. The amendment was approved in the same manner as the original budget was adopted.

The budget was exceeded in the current year.

CITY OF CORBIN, KENTUCKY

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2010

	City Hall Public Corporation	Debt Service	Total Non-major Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 79,515	\$ -	\$ 79,515
Due from agencies	-	-	-
Restricted cash and cash equivalents	-	74,588	74,588
<b>Total assets</b>	<u>\$ 79,515</u>	<u>\$ 74,588</u>	<u>\$ 154,103</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Due to general fund	\$ -	\$ -	\$ -
<b>Total liabilities</b>	-	-	-
<b>Fund balances:</b>			
Reserved for debt service	-	74,588	74,588
Unreserved	79,515	-	79,515
<b>Total fund balances</b>	<u>79,515</u>	<u>74,588</u>	<u>154,103</u>
<b>Total liabilities and fund balances</b>	<u>\$ 79,515</u>	<u>\$ 74,588</u>	<u>\$ 154,103</u>

**CITY OF CORBIN, KENTUCKY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS  
Year ended June 30, 2010**

	City Hall Public Corporation	Debt Service Fund	Total Non-major Governmental Funds
<b>Revenues</b>			
Rent	\$ 259,446	\$ -	\$ 259,446
Interest income	846	184	1,030
Total revenues	<u>260,292</u>	<u>184</u>	<u>260,476</u>
<b>Expenditures</b>			
General government	204,191	-	204,191
Debt service	-	140,726	140,726
Total expenditures	<u>204,191</u>	<u>140,726</u>	<u>344,917</u>
Excess (deficit) of revenues over (under) expenditures	56,101	(140,542)	(84,441)
<b>Other financing sources (uses)</b>			
Operating transfers in	-	140,726	140,726
Operating transfers out	(180,000)	-	(180,000)
Total other financing sources (uses)	<u>(180,000)</u>	<u>140,726</u>	<u>(39,274)</u>
<b>Net change in fund balance</b>	(123,899)	184	(123,715)
Fund balance as of July 1, 2009	<u>203,414</u>	<u>74,404</u>	<u>277,818</u>
<b>Fund balance as of June 30, 2010</b>	<u>\$ 79,515</u>	<u>\$ 74,588</u>	<u>\$ 154,103</u>

*Lloyd & Associates, PSC*  
Certified Public Accountants & Business Consultants

**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, 2010, and have issued our report thereon dated December 28, 2010. 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, 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Corbin, Kentucky in a separate letter dated December 28, 2010.

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, 2010 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.

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*Our Financial Reporting - Open Faces of Mind*

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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 are insufficient 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 provide oversight regarding the Arena management although it is apparent that the management company failed to perform.

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 no formal fraud training for City employees.
- There are insufficient 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 provide oversight regarding the Arena management although it is apparent that the management company failed to perform.
- There is a failure to provide for actuarial studies of the Police and Firemen's Pension Fund in a manner that is GAAP compliant.
- 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 to produce GAAP financial statements; however, the City management does indicate an understanding of the underlying financial assertions upon which the GAAP financial statements are produced.

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 28, 2010  
Cloyd & Associates, PSC  
Corbin, Kentucky