

CITY OF CORBIN
Corbin, Kentucky

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011
with
REPORT OF INDEPENDENT AUDITORS

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the governmental activities, the business activities as applicable, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Corbin, Kentucky as of and for the year ended June 30, 2011, 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.

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 activities as applicable, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Corbin, Kentucky as of and for the year ended June 30, 2011 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 March 11, 2012, on our consideration of City of Corbin, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, and budgetary comparison information and pension plan information on pages 34 and 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The supplementary information on pages 34-36 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

March 11, 2012
Cloyd & Associates, PSC
Corbin, KY

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS

- The City's ending cash balance was \$2,328,201 comprised of \$256,590 in restricted cash and \$2,071,611 in unrestricted cash. The prior year's cash balance was \$3,215,720 of which \$619,019 was restricted and \$2,596,701 was unrestricted. The decrease in cash is primarily due to the use of restricted cash for projects.
- The City's combined net assets decreased by \$245,628 or approximately 1% between 2010 and 2011.
- The General Fund had approximately \$7.0 million in revenue (excluding debt issues, transfers), which primarily consisted of tax revenue, fees for services and intergovernmental revenue. There was an overall increase in the General Fund net asset balance of approximately \$178,126 which represents approximately a 6% increase relative to the prior year. The City also established a Corbin Arena Fund, which showed an overall decrease of \$172,185 and City Hall Public Corporation showed an overall increase of \$29,965. The total overall increase for governmental funds was \$35,906 or approximately 1% between 2010 and 2011.
- The City's total long-term debt decreased by \$448,649, relative to 2010. The City issued lease purchase agreements in the amount of \$6,975,000 to retire one bond issue and two existing lease issues in the amount of \$6,767,215. Cost of debt was \$207,785.

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, 2011

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 33 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, 2011

The City as a Whole

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

	Governmental Activities		Total	
	2010	2011	2010	2011
Current and other assets	\$ 4,595,738	\$ 3,920,839	\$ 4,595,738	\$ 3,920,839
Capital assets, net of depreciation	44,437,199	43,531,709	44,437,199	43,531,709
Total Assets	49,032,937	47,452,548	49,032,937	47,452,548
Short-term liabilities	2,519,577	1,573,369	2,519,577	1,573,369
Other liabilities	12,662,923	12,274,370	12,662,923	12,274,370
Total Liabilities	15,182,500	13,847,739	15,182,500	13,847,739
Net assets				
Invested in capital assets, net of related debt	32,552,571	32,278,626	32,552,571	32,278,626
Restricted	401,807	175,003	401,807	175,003
Unrestricted	896,059	1,151,180	896,059	1,151,180
Total Net Assets	\$ 33,850,437	\$ 33,604,809	\$ 33,850,437	\$ 33,604,809

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

	Governmental Activities		Total	
	2010	2011	2010	2011
Revenues				
Program revenues				
Charges for services	\$ 2,255,852	\$ 1,850,974	\$ 2,255,852	\$ 1,850,974
Operating Grants & contributions	1,513,277	1,535,632	1,513,277	1,535,632
Capital Grants & contributions	350,650	373,410	350,650	373,410
General revenues				
Local taxes	4,174,441	4,355,317	4,174,441	4,355,317
Licenses and permits	383,083	389,311	383,083	389,311
Rent	289,666	178,082	289,666	178,082
Earnings on investments	58,732	21,507	58,732	21,507
Other	(531,315)	9,668	(531,315)	9,668
Total revenues	\$ 8,494,386	\$ 8,713,901	\$ 8,494,386	\$ 8,713,901
Expenses				
General government	3,271,524	1,347,800	3,271,524	1,347,800
Police department	1,784,901	1,793,498	1,784,901	1,793,498
Fire department	1,150,081	1,112,513	1,150,081	1,112,513
Public works	1,526,629	1,662,139	1,526,629	1,662,139
Recycling center	170,787	184,949	170,787	184,949
Building inspector	112,065	101,765	112,065	101,765
Parks and recreation	458,938	478,054	458,938	478,054
Special projects	1,265,266	55,990	1,265,266	55,990
Arena		1,946,241		1,946,241
Interest on debt service	282,330	276,580	282,330	276,580
Total expenses	\$ 10,022,521	\$ 8,959,529	\$ 10,022,521	\$ 8,959,529
Increase/(Decrease) in net assets	\$ (1,528,135)	\$ (245,628)	\$ (1,528,135)	\$ (245,628)

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

CITY OF CORBIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2011

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for fiscal years 2011 and 2010:

	<u>2010</u>	<u>2011</u>
Revenues and other financing sources		
Tax and related revenue	\$ 4,174,441	\$ 4,355,317
Licenses and permits	383,083	389,311
Fees for services	1,337,618	1,850,974
Rent	289,666	178,082
Investments	58,732	21,507
Intergovernmental	2,484,916	1,909,042
Other	297,245	9,668
Transfers	320,726	125,000
Debt issue	3,190,095	6,975,000
	<u>12,536,522</u>	<u>15,813,901</u>
Total Revenue and other financing sources		
Expenditures and other financing uses		
General government	2,988,355	931,640
Police department	1,889,027	1,975,905
Fire department	1,226,514	1,168,555
Public works	1,526,292	1,623,824
Recycling center	164,943	176,050
Building inspection	112,183	100,996
Parks and recreation	790,429	564,913
Special projects	3,017,755	256,933
Arena	-	1,718,761
Debt service	140,726	160,418
Refinancing cost		6,975,000
Transfers	320,726	125,000
	<u>12,176,950</u>	<u>15,777,995</u>
Total expenditures and other financing uses		
Net change in fund balance	<u>\$ 359,572</u>	<u>\$ 35,906</u>

General Fund Revenue

The majority of revenue, net of debt, was derived from tax revenue (48% in 2011 and 48% in 2010) and intergovernmental revenue (21% in 2011 and 28% in 2010). Fees for services made up 21% of revenue in 2011 and 15% in 2010. Interest income made up 0.25% of total revenues in 2011 and 1% in 2010. The primary reason for the changes was decreased grant revenue associated with the Arena and other projects. Overall expenditures, not inclusive of debt refinancing, decreased by 28% due primarily to decreased construction activity.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2011

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, 2011

	Primary Government		Component Units
	Governmental Activities	Total	
ASSETS			
Cash and cash equivalents - unrestricted	\$ 2,071,611	\$ 2,071,611	\$ 481,558
Restricted cash and cash equivalents	256,590	256,590	-
Taxes receivable:			
Restaurant tax	243,563	243,563	-
Insurance tax	338,624	338,624	-
Occupational tax	145,788	145,788	-
Other tax	6,376	6,376	26,210
Taxes receivable - delinquent	71,290	71,290	-
Estimated uncollectible (taxes)	(71,290)	(71,290)	-
Grants receivable	-	-	-
Other receivables (net of allowance for uncollectible accounts)	251,274	251,274	13,011
Due from primary government	-	-	243,563
Prepaid expense	1,953	1,953	1,038
Due from component units	182,672	182,672	-
Due from agencies	41,551	41,551	-
Other assets	49,597	49,597	-
Debt issuance costs	331,240	331,240	-
Investment in fixed assets, net			
Non-depreciable	2,593,027	2,593,027	100,000
Depreciable	40,938,682	40,938,682	1,498,813
Total assets	47,452,548	47,452,548	2,364,193
LIABILITIES			
Accounts payable	63,366	63,366	2,660
Accrued expenses	313,180	313,180	833
Due to component units	243,563	243,563	-
Due to primary government	-	-	182,672
Accrued interest	25,711	25,711	-
Accrued compensated absences - current	19,700	19,700	-
Deferred arena revenue	84,087	84,087	-
Short term loan payable	218,425	218,425	-
Current portion of capital leases due	61,600	61,600	-
Current portion of long-term notes payable	61,380	61,380	12,635
Current portion purchase agreements payable	482,357	482,357	-
Pension liability payable	1,204,028	1,204,028	-
Long-term portion of leases payable	65,000	65,000	-
Long-term portion of notes payable	67,699	67,699	680,253
Long-term portion of lease purchase agreements payable	10,846,287	10,846,287	-
Non-current portion of accrued compensated absences	91,356	91,356	-
Total liabilities	13,847,739	13,847,739	879,053
NET ASSETS			
Invested in capital assets, net of related debt	32,278,626	32,278,626	905,925
Restricted for:			
Operations	30,464	30,464	-
Capital expenditures	144,539	144,539	-
Unrestricted	1,151,180	1,151,180	579,215
Total net assets	\$ 33,604,809	\$ 33,604,809	\$ 1,485,140

See accompanying notes.

CITY OF CORBIN, KENTUCKY

STATEMENT OF ACTIVITIES
Year ended June 30, 2011

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Primary Government Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total	Component Units
Governmental activities							
General Government	\$ 1,347,800	\$ 51,817	\$ 220,498	\$ -	\$ (1,075,485)	\$ (1,075,485)	\$ (1,270,654)
Police Department	1,793,498	47,731	77,971	276,907	(1,390,889)	(1,390,889)	-
Fire Department	1,112,513	1,403	74,508	-	(1,036,602)	(1,036,602)	-
Public Works	1,662,139	1,197,132	-	-	(465,007)	(465,007)	-
Recycling Center	184,949	84,579	-	96,503	(3,867)	(3,867)	-
Building Inspection	101,765	1,051	-	-	(100,714)	(100,714)	-
Parks and Recreation	478,054	83,595	-	-	(394,459)	(394,459)	-
Special Projects	55,990	-	-	-	(55,990)	(55,990)	-
Arena expenditures	1,946,241	383,666	1,162,655	-	(399,920)	(399,920)	-
Interest on Long-Term Debt	276,580	-	-	-	(276,580)	(276,580)	-
Total primary government	\$ 8,959,529	\$ 1,850,974	\$ 1,535,632	\$ 373,410	(5,199,513)	(5,199,513)	(1,270,654)
			General revenues				
			Taxes:				
			Property	884,650	884,650	263,867	
			Motor vehicle	94,360	94,360	-	
			Occupational	1,282,168	1,282,168	-	
			Municipal insurance	1,570,521	1,570,521	-	
			Restaurant	-	-	960,560	
			Other	180,107	180,107	104,998	
			Municipal fees in lieu of taxes	343,511	343,511	-	
			Licenses and permits	389,311	389,311	-	
			Rent	178,082	178,082	-	
			Earnings on investments	21,507	21,507	4,625	
			Other	9,668	9,668	81,155	
			Gain on disposal of assets	-	-	187,611	
			Total general revenues	4,953,885	4,953,885	1,602,816	
			Change in net assets	(245,628)	(245,628)	332,162	
			Net assets as of July 1, 2010	33,850,437	33,850,437	1,152,978	
			Net assets as of June 30, 2011	\$33,604,809	\$33,604,809	\$ 1,485,140	

See accompanying notes.

CITY OF CORBIN, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Corbin Arena Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents - unrestricted	\$ 1,499,893	\$ 462,238	\$ 109,480	\$ 2,071,611
Restricted cash and cash equivalents	175,003	81,587	-	256,590
Taxes receivable				
Restaurant tax	243,563	-	-	243,563
Insurance tax	338,624	-	-	338,624
Occupational tax	145,788	-	-	145,788
Other tax	6,376	204,700	-	211,076
Taxes receivable - delinquent	71,290	-	-	71,290
Estimated uncollectible (taxes)	(71,290)	-	-	(71,290)
Grants receivable	-	-	-	-
Other receivables (net of allowance for uncollectible accounts)	229,246	-	-	229,246
Prepaid expenses	1,953	-	-	1,953
Due from Arena Fund	1,124,304	-	-	1,124,304
Due from component units	-	-	-	-
Due from agencies	41,551	-	-	41,551
Other assets	-	49,597	-	49,597
Total assets	\$ 3,806,301	\$ 798,122	\$ 109,480	\$ 4,713,903
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 48,962	\$ 14,404	\$ -	\$ 63,366
Accrued expenses	313,180	-	-	313,180
Deferred arena revenue	-	84,087	-	84,087
Short-term obligations payable	-	218,425	-	218,425
Current portion of accrued compensated absences	19,700	-	-	19,700
Due to General Fund	-	1,124,304	-	1,124,304
Due to component units	243,563	-	-	243,563
Total liabilities	625,405	1,441,220	-	2,066,625
Fund balances				
Nonspendable	-	-	-	-
Restricted	175,003	-	-	175,003
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	3,005,893	(643,098)	109,480	2,472,275
Total fund balances	3,180,896	(643,098)	109,480	2,647,278
Total liabilities and fund balances	\$ 3,806,301	\$ 798,122	\$ 109,480	\$ 4,713,903

See accompanying notes.

CITY OF CORBIN, KENTUCKY

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2011

Total fund balances - governmental funds	\$ 2,647,278
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$59,466,818 and the accumulated depreciation is \$15,935,109	43,531,709
Bond issue costs are not current financial resources and, therefore, are not reported as assets in governmental funds.	331,240
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.	(11,584,323)
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.	(1,204,028)
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.	(91,356)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net assets.	<u>(25,711)</u>
Total net assets - governmental activities	<u>\$ 33,604,809</u>

See accompanying notes.

CITY OF CORBIN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended June 30, 2011

	General Fund	Corbin Arena Fund	Other Governmental	Total Governmental Funds
Revenues				
Taxes:				
Property	\$ 884,650	\$ -	\$ -	\$ 884,650
Motor vehicle	94,360	-	-	94,360
Occupational	1,282,168	-	-	1,282,168
Municipal insurance	1,570,521	-	-	1,570,521
Other	180,107	-	-	180,107
Revenue in lieu of tax	343,511	-	-	343,511
Licenses and permits	389,311	-	-	389,311
Fees for services	1,467,308	383,666	-	1,850,974
Rent	19,964	-	158,118	178,082
Interest	21,079	256	172	21,507
Intergovernmental revenues	746,388	1,162,654	-	1,909,042
Other	9,668	-	-	9,668
Total revenues	<u>7,009,035</u>	<u>1,546,576</u>	<u>158,290</u>	<u>8,713,901</u>
Expenditures				
General government	928,315	-	3,325	931,640
Police department	1,975,905	-	-	1,975,905
Fire department	1,168,555	-	-	1,168,555
Public works	1,623,824	-	-	1,623,824
Recycling center	176,050	-	-	176,050
Building inspection	100,996	-	-	100,996
Parks and Recreation	564,913	-	-	564,913
Special projects	256,933	-	-	256,933
Arena expenditures	-	1,335,975	-	1,335,975
Debt Service	160,418	382,786	-	543,204
Total expenditures	<u>6,955,909</u>	<u>1,718,761</u>	<u>3,325</u>	<u>8,677,995</u>
Excess (deficit) of revenues over (under) expenditures	53,126	(172,185)	154,965	35,906
Other financing sources (uses)				
Proceeds from debt	6,975,000	-	-	6,975,000
Paid to escrow agents	(6,767,215)	-	-	(6,767,215)
Cost of debt issuance	(207,785)	-	-	(207,785)
Operating transfers in	125,000	-	-	125,000
Operating transfers out	-	-	(125,000)	(125,000)
Total other financing sources (uses)	<u>125,000</u>	<u>-</u>	<u>(125,000)</u>	<u>-</u>
Net change in fund balance	178,126	(172,185)	29,965	35,906
Fund balances, July 1, 2010	<u>3,002,770</u>	<u>(470,913)</u>	<u>79,515</u>	<u>2,611,372</u>
Fund balances, June 30, 2011	<u>\$ 3,180,896</u>	<u>\$ (643,098)</u>	<u>\$ 109,480</u>	<u>\$ 2,647,278</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, 2011

Net change in total fund balances - governmental funds	\$ 35,906
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense (\$1,554,843) exceeds capital outlay (\$649,353) for the year.	(905,490)
Bond issuance costs are amortized over the life of the related bonds on the statement of activities.	(46,627)
Debt issuance cost is an expense in the governmental fund financial statements but is an asset in the government wide statements	207,785
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.	7,445,387
Capital debt is shown as other sources and uses of funds in the governmental statements but is a liability in the government wide statements-net	(6,975,000)
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.	(23,855)
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.	14,149
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>2,117</u>
Change in net assets - governmental activities	<u>\$ (245,628)</u>

See accompanying notes.

CITY OF CORBIN, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	Agency Funds	Pension Trust Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ 274,228
Investments	-	474,669
Receivables		
Taxes - delinquent	28,234	40,398
Estimated uncollectible - taxes	(28,234)	(40,398)
Interest	<u>-</u>	<u>928</u>
Total Assets	<u>-</u>	<u>749,825</u>
LIABILITIES		
Due to agencies	-	-
Total Liabilities	<u>-</u>	<u>-</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ -</u>	<u>\$ 749,825</u>

See accompanying notes.

CITY OF CORBIN, KENTUCKY

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

ADDITIONS

Tax revenue	\$ 403,314
Employee contributions	-
Interest	8,951
Other	30
Total revenues	<u>412,295</u>

DEDUCTIONS

Benefits	470,630
Plan administration	30
Total expenditures	<u>470,660</u>

Increase/(Decrease) in net assets (58,365)

Net Assets, July 1, 2010 808,190

Net Assets Held in Trust for Pension Benefits, June 30, 2011 \$ 749,825

See accompanying notes.

CITY OF CORBIN, KENTUCKY
STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2011

	Corbin Tourism and Convention Commission	Corbin Public Library	Total Component Units
ASSETS			
Cash and cash equivalents	\$ 197,098	\$ 284,460	\$ 481,558
Taxes receivable			
Transient room tax receivable	23,415	-	23,415
Other	595	2,200	2,795
Due from primary government	243,563	-	243,563
Other receivables	13,011	-	13,011
Prepaid expenses	1,038	-	1,038
Investment in fixed assets, net			
Non-depreciable	-	100,000	100,000
Depreciable	217,276	1,281,537	1,498,813
Total assets	<u>695,996</u>	<u>1,668,197</u>	<u>2,364,193</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	768	1,892	2,660
Accrued expense	-	833	833
Arena operations funding payable	182,672	-	182,672
Current portion of long term debt	-	12,635	12,635
Noncurrent portion of long term debt	-	680,253	680,253
Total liabilities	<u>183,440</u>	<u>695,613</u>	<u>879,053</u>
NET ASSETS			
Invested in capital assets, net of related debt	217,276	688,649	905,925
Unrestricted	295,280	283,935	579,215
Total net assets	<u>\$ 512,556</u>	<u>\$ 972,584</u>	<u>\$ 1,485,140</u>

See accompanying notes.

CITY OF CORBIN, KENTUCKY
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
Year ended June 30, 2011

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	Corbin Public Library	Total
Corbin Tourism and Convention Center	\$ 1,010,227	\$ 12,735	\$ 16,879	\$ -	\$ (980,613)	\$ -	(980,613)
Corbin Public Library	296,357	-	6,316	-	-	(290,041)	(290,041)
Total primary government	\$ 1,306,584	\$ 12,735	\$ 23,195	\$ -	(980,613)	(290,041)	(1,270,654)
General revenues							
Taxes:							
Property							
					-	263,867	263,867
Restaurant tax							
					960,560	-	960,560
Transient room tax							
					104,998	-	104,998
Licenses and permits							
					-	-	-
Earnings on investments							
					438	4,187	4,625
Fines and miscellaneous							
						81,155	81,155
Gain on disposal of assets							
					8,000	179,611	187,611
Total general revenues							
					1,073,996	528,820	1,602,816
Change in net assets							
					93,383	238,779	332,162
Net assets as of July 1, 2010							
					419,173	733,805	1,152,978
Net assets as of June 30, 2011							
					\$ 512,556	\$ 972,584	\$1,485,140

See accompanying notes.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2011

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.

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
Year ended June 30, 2011

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, 2011

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

The City reports the following major governmental funds:

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

Corbin Arena Fund – The Arena funds accounts for all the activity of the Arena including debt service.

Additionally, the City reports the following fund types:

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

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

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

C. Measurement focus and basis of accounting

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

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

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

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

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

D. Cash and cash equivalents and investments

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

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

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

E. Receivables

All trade receivables are shown net of an allowance for uncollectible accounts and estimated refunds. As of June 30, 2011, the allowance for uncollectible accounts for governmental activities was \$2,008. Grants are fully recognized as revenues when earned because the City expects to collect the amount in full within 60 days of earning the revenue.

F. Prepaid expenses

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

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
Year ended June 30, 2011

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 \$331,240 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.

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

K. Deferred revenues

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

L. Compensated absences

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

M. Pension plans

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

N. Fund balances:

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

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

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

The City does not use encumbrance accounting.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

O. Budgets and Budgetary accounting

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

1. Prior to May 1 of each year, the Mayor submits to the Corbin City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between categories within each department; however, any revisions that alter the total expenditures of any fund must be approved by the Corbin City Commission.
5. Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Operating transfers required for debt service are accounted for in the budget of the City's general fund.
6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Actual expenditures may not exceed the legally adopted budget for any given fund.
7. The budget for the fiscal year ending June 30, 2011 was amended during the year. The amendment was approved in the same manner as the original budget was adopted.

P. Property taxes

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

Q. Special projects

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

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

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, 2011, the carrying amount of the City's cash and cash equivalents was \$2,568,948 with a bank balance of \$2,246,948. Of the total cash balance, \$750,000 was covered by federal depository insurance with the remaining balance, excluding petty cash of \$1,400, was covered by a collateral agreement and collateral held by the pledging bank's trust department in the City's name. By state statute, and City policy, the City may deposit funds in state and nationally chartered banks which provide FDIC insurance and sufficient collateral to secure deposits in excess of FDIC coverage. Cash equivalents are considered to be all demand deposits, certificates of deposit and highly liquid, short-term security investments that are readily convertible to known amounts of cash and mature within three months of the date they are acquired. Of the total cash balance, \$256,590 is considered restricted. Restricted cash is comprised of \$144,539 restricted for capital improvement and operations, \$81,587 restricted for Arena reserves for payment, and \$30,464 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, 2011, the City holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the City does not bear investment related credit risk or interest rate risk. The City has not adopted a formal investment policy.

NOTE 4 – CONTINGENCIES

A. Pending and Threatened Litigation

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

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

B. Short-term Line of Credit

The City of Corbin maintains a short-term line of credit of \$600,000. The purpose of the loan is to meet short-term commitments as needed. The balance owed on the line of credit at June 30, 2011 is \$218,425.

A schedule of activity is presented below:

Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<u>\$ 330,000</u>	<u>\$ -</u>	<u>\$ 111,575</u>	<u>\$ 218,425</u>

D. Grants

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

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Dispositions	Balance June 30, 2011
Governmental activities				
Land	\$ 2,593,027	\$ -	\$ -	\$ 2,593,027
Buildings and improvements	47,722,973	-	-	47,722,972
Improvements				
other than buildings	2,911,914	328,023	-	3,239,937
Equipment	5,435,328	360,859	-	5,796,187
Other	113,803	-	-	113,803
Construction in progress	39,529	-	39,529	-
	<u>58,816,574</u>	<u>688,882</u>	<u>39,529</u>	<u>59,465,926</u>
Less: Accumulated depreciaion				
Buildings and improvements	9,055,924	1,140,089	-	10,196,013
Improvements				
other than buildings	1,094,125	46,992	-	1,141,117
Equipment	4,198,603	353,907	-	4,552,510
Other	30,723	13,854	-	44,577
Total accumulated depreciation	<u>14,379,375</u>	<u>1,554,842</u>	<u>-</u>	<u>15,934,217</u>
Governmental activities, net capital assets	<u>\$ 44,437,199</u>	<u>\$ (865,960)</u>	<u>\$ 39,529</u>	<u>\$ 43,531,709</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
Year ended June 30, 2011

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

General government	\$ 524,288
Police department	150,353
Fire department	11,419
Public works	72,215
Corbin recycling center	8,899
Parks and recreation	47,895
Building inspector	769
Arena	<u>739,005</u>
	<u>\$ 1,554,843</u>

NOTE – 6 LONG-TERM LIABILITIES

A. General Obligation Leases

Refinancing Lease

In November 2011, the City issued a General Obligation Capital Lease to refinance the City's 2000 General Obligation Bonds, and two previous Capital Leases associated with construction of the David L. Williams Arena. The total refinancing amount was \$6,975,000, which refinanced \$1,085,000 principal of the Series 2000 General Obligation Bonds and \$5,682,215 on Arena capital leases. In addition there was \$207,785 in cost of issuance. The lease bears variable interest in range from 4.2% to 5.2%. The debt service is split between the General Fund and the Corbin Arena Fund on a pro rate basis. The bond maturities and interest as of June 30, 2011 are as follows:

Year ending <u>June 30,</u>	Principal <u>Payment</u>	Interest <u>and Fees</u>	<u>Total</u>
2012	\$ 352,083	\$ 235,456	\$ 587,539
2013	359,169	227,534	586,703
2014	367,083	219,453	586,536
2015	376,250	209,652	585,902
2016	389,167	197,724	586,891
2017	399,167	184,776	583,943
2018	411,250	171,803	583,053
2019	426,250	158,438	584,688
2020	439,167	144,584	583,751
2021	397,083	130,311	527,394
2022	336,250	117,062	453,312
2023	349,166	104,934	454,100
2024	361,250	92,087	453,337
2025	376,250	77,908	454,158
2026	391,250	62,858	454,108
2027	405,250	46,792	452,042
2028	423,333	29,526	452,859
2029	<u>254,748</u>	<u>11,222</u>	<u>265,970</u>
	<u>\$ 6,814,166</u>	<u>\$ 2,422,121</u>	<u>\$ 9,236,287</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

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

During the year ended June 30, 2009 and June 30, 2010 the City entered into lease agreements with the Kentucky League of Cities in order to provide final financing for the Arena. Proceeds from the leases were \$8,000,000, and \$3,000,000 including \$149,510 of debt issuance cost. The two \$3,000,000 notes were refinanced in the current year leaving the \$5,000,000 lease to be repaid over in monthly payments over a period of 20 years. The effective interest rate is stated at 2% with true interest cost stated as variable between 3.39% and 4.02%. The actual interest rate may vary based on indices used by the Kentucky League of Cities. Future principal and anticipated interest rates as of June 30, 2011 are:

Year ending <u>June 30,</u>	Principal <u>Payment</u>	Interest <u>and Fees</u>	<u>Total</u>
2012	\$ 189,441	\$ 124,130	\$ 313,571
2013	197,181	118,478	315,659
2014	204,471	113,114	317,585
2015	212,298	107,367	319,665
2016	220,169	101,590	321,759
2017	228,986	95,143	324,129
2018	237,537	88,858	326,395
2019	246,622	82,190	328,812
2020	255,867	75,405	331,272
2021	265,933	68,037	333,970
2022	275,950	60,679	336,629
2023	286,496	52,941	339,437
2024	297,337	44,987	342,324
2025	308,855	36,546	345,401
2026	320,576	27,943	348,519
2027	332,819	18,962	351,781
2028	345,514	9,648	355,162
2029	88,426	910	89,336
	<u>\$ 4,514,478</u>	<u>\$ 1,226,928</u>	<u>\$ 5,741,406</u>

B. Notes Payable

Bank of Corbin

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

Fiscal Year Ended June 30,	<u>Principal</u>	<u>Interest</u>
2012	\$ 63,405	\$ 3,250
2013	65,674	1,159
	<u>\$ 129,079</u>	<u>\$ 4,409</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

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, 2011 are:

Fiscal Year Ended June 30,	Amount
2012	\$ 63,675
2013	66,268
	<u>129,943</u>
Less amount representing interest, variable	4,943
Present value of minimum lease payments	<u>\$ 125,000</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, 2011 are:

Fiscal Year Ended June 30,	Amount
2012	\$ 1,672
	<u>1,672</u>
Less amount representing interest, variable	72
Present value of minimum lease payments	<u>\$ 1,600</u>

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
Year ended June 30, 2011

Changes in long-term liability for the year ended June 30, 2011 were as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Series 2000 G.O. Bonds	\$ 1,165,000	\$ -	\$ 1,165,000	\$ -
KADD 2002 Lease	185,000	-	60,000	125,000
KLC Note Payable	2,251	-	2,251	-
Cumberland Valley National Bank	41,335	-	41,335	-
KLC Leases	10,454,614	-	5,940,136	4,514,478
KLC Refinancing Lease	-	6,975,000	160,834	6,814,166
Caterpillar Financial Services Note Payable	2,876	-	2,876	-
Hometown Bank Note Payable	190,282	-	61,203	129,079
Recreation Leases	13,353	-	11,753	1,600
Net pension obligation	1,180,173	23,855	-	1,204,028
Accrued absences	113,173	-	2,117	111,056
	<u>\$ 13,348,057</u>	<u>\$ 6,998,855</u>	<u>\$ 7,447,505</u>	<u>\$ 12,899,407</u>

Capital assets under capital lease at June 30, 2011 consist of a fire truck which is fully depreciated and recreation equipment. In addition, the Arena and related assets are under a lease purchase agreement. The City's management believes that all debt covenants are being complied with.

NOTE 7 – PENSION PLANS

A. General Government Employees

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

Funding Policy: Employees of the City are required to pay 5% (7.65% for hazardous-pay employees) of their gross earnings to the pension plan. The City makes annual contributions to pension plan equal to the amount required by state statutes. During the year the City was required to contribute 16.93% (33.25% for hazardous-pay employees) of its gross payroll to the plan. Total contributions for the year ending June 30, 2011 were \$917,315 of which the City contributed \$731,648 and the employees contributed \$185,667. The City's contributions to the County Employee's Retirement systems for the years ending June 30, 2011, 2010 and 2009 were \$932,451, 702,680 and \$629,068, respectively. The City's contributions were equal to the contractually required contributions as set by state statutes.

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

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.

The Plan uses the accrual basis of accounting. Investment income is recognized when incurred and contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the Plan. The Plan does not issue stand-alone financial statements; however, it is presented in the City's financial statements as the Pension Trust Fund. Two investments represented more than 5% of the net assets available for benefits. Long term certificates of deposit in the amounts of \$100,000 and \$374,669 represented 12.37% and 46.35% 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.

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	\$	427,853
Contributions made	\$	403,998
Actuarial valuation date		July 1, 2008
Actuarial cost method		Entry age normal
Amortization method		Level dollar
Amortization period open		20 years
Remaining amortization period		17 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 BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation (Benefit)
6/30/2009	\$ 424,769	95.00%	\$ 1,136,590
6/30/2010	\$ 428,564	90.00%	\$ 1,180,173
6/30/2011	\$ 427,853	94.00%	\$ 204,028

SCHEDULE OF FUNDING PROGRESS

Acuarial 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	1,743
Adjustment to annual required contribution	(3,094)
Annual pension cost	427,843
Contributions made	<u>403,998</u>
Increase in net pension obligation	23,845
Net pension obligation at beginning of year	<u>1,180,183</u>
Net pension obligation at end of year	<u><u>\$ 1,204,028</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 \$178,082 for the year ended June 30, 2011.

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 \$162,815. At the end of the year, \$86,555 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 \$57,684. At the end of year, \$57,983 of 2010 and 2011 funds was restricted for purpose.

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

CITY OF CORBIN, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2011

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:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
Operating	City Hall Public Corporation	General	\$ 125,000	General

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 operations	\$ 30,464
Restricted for capital additions	<u>144,539</u>
Total restricted net assets	<u>\$ 175,003</u>

NOTE – 15 SUBSEQUENT EVENTS

The City's management has evaluated subsequent events through March 11, 2011, the date which the financial states were available to be issued. Management has noted no issues that affect the current financial statements.

SUPPLEMENTARY INFORMATION

CITY OF CORBIN, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 Year Ended June 30, 2011

	General Fund			Over (Under) Budget
	Original Budget	Final Budget	Actual	
REVENUES	\$ 7,928,467	\$ 7,928,467	\$ 7,009,035	\$ (919,432)
EXPENDITURES				
General government	1,012,019	1,038,949	928,315	(110,634)
Police department	1,988,203	2,010,000	1,975,905	(34,095)
Fire department	1,176,625	1,180,000	1,168,555	(11,445)
Public works	1,669,525	1,844,100	1,623,824	(220,276)
Recycling center	164,500	185,000	176,050	(8,950)
Building inspection	115,175	115,000	100,996	(14,004)
Parks and recreation	439,420	575,000	564,913	(10,087)
Special projects	1,226,000	820,000	256,933	(563,067)
Total expenditures	<u>7,791,467</u>	<u>7,768,049</u>	<u>6,795,491</u>	<u>(972,558)</u>
OTHER FINANCING SOURCES				
Loan proceeds	-	-	-	-
Lease proceeds	-	-	6,975,000	6,975,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>6,975,000</u>	<u>6,975,000</u>
OTHER FINANCING USES				
Transfers from component units	-	-	125,000	125,000
Cost of debt			(207,785)	(207,785)
Refinancing debt service			(6,767,215)	(6,767,215)
Bonded debt service	(137,000)	(160,418)	(160,418)	-
Total other financing sources	<u>(137,000)</u>	<u>(160,418)</u>	<u>(7,010,418)</u>	<u>6,850,000</u>
Net Change in Fund Balance	-	-	178,126	178,126
Fund balance, July 1, 2010	<u>3,002,770</u>	<u>1,973,982</u>	<u>1,973,982</u>	-
Fund balance June 30, 2011	<u>\$ 3,002,770</u>	<u>\$ 1,973,982</u>	<u>\$ 2,152,108</u>	<u>\$ 178,126</u>

See accompanying notes.

CITY OF CORBIN, KENTUCKY

REQUIRED SUPPLEMENTARY INFORMATION
 PENSION TRUST FUND
 SCHEDULE OF FUNDING PROGRESS
 June 30, 2011

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
2006	489,303	55%
2007	487,191	81%
2008	492,511	78%
2009	424,769	95%
2010	428,564	90%
2011	427,853	94%

Actuarial valuation date	July 1, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Amortization period open	20 years
Remaining amortization period	17 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, 2011

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, 2011 was amended during the year. The amendment was approved in the same manner as the original budget was adopted.

CITY OF CORBIN, KENTUCKY

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2011

	City Hall Public Corporation	Debt Service	Total Non-major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 109,480	\$ -	\$ 109,480
Due from agencies	-	-	-
Restricted cash and cash equivalents	-	-	-
Total assets	<u>\$ 109,480</u>	<u>\$ -</u>	<u>\$ 109,480</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to general fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	<u>109,480</u>	<u>-</u>	<u>109,480</u>
Total fund balances	<u>109,480</u>	<u>-</u>	<u>109,480</u>
Total liabilities and fund balances	<u>\$ 109,480</u>	<u>\$ -</u>	<u>\$ 109,480</u>

CITY OF CORBIN, KENTUCKY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2011

	City Hall Public Corporation	Debt Service Fund	Total Non-major Governmental Funds
Revenues			
Rent	\$ 158,118	\$ -	\$ 158,118
Interest income	172	-	172
	<u>158,290</u>	<u>-</u>	<u>158,290</u>
Expenditures			
General government	3,325	-	3,325
Debt service	-	-	-
	<u>3,325</u>	<u>-</u>	<u>3,325</u>
Excess (deficit) of revenues over (under) expenditures	154,965	-	154,965
Other financing sources (uses)			
Operating transfers in	-	-	-
Operating transfers out	(125,000)	-	(125,000)
	<u>(125,000)</u>	<u>-</u>	<u>(125,000)</u>
Net change in fund balance	29,965	-	29,965
Fund balance as of July 1, 2010	<u>79,515</u>	<u>-</u>	<u>79,515</u>
Fund balance as of June 30, 2011	<u>\$ 109,480</u>	<u>\$ -</u>	<u>\$ 109,480</u>

**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, 2011, and have issued our report thereon dated March 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Corbin, Kentucky as of and for the year ended June 30, 2011 in accordance with auditing standards generally accepted in the United States of America, we considered the City of Corbin, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial recording. Accordingly we do not express an opinion on the effectiveness of the Governmental Units internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following control deficiencies on the City of Corbin's internal control to be material weaknesses.

- There is a failure to establish sufficient controls over accounting for fixed assets.
- There is a failure to insure that annual audits are performed on all component units.
- There is a failure to provide include the Arena in the City budget or provide a formal budget for the Corbin Arena even though it is a major fund.
- There is a failure to timely record transactions of the Corbin Arena.

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

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

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

Cloyd & Associates, PSC

March 11, 2012
Cloyd & Associates, PSC
Corbin, Kentucky