

CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2010

Prepared By:
Robert J. Due
Director of Finance

**CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2010**

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INTRODUCTORY SECTION



CITY OF COVINGTON

638 MADISON AVENUE • COVINGTON, KENTUCKY 41011-2298

OFFICE OF THE CITY MANAGER

November 19, 2010

To the Mayor, City Commissioners and Citizens of the City of Covington, Kentucky:

Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) in accordance with the implementation of Government Standards Board (GASB) Statement 34, and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Covington for the fiscal year ended June 30, 2010.

This report consists of management's representations concerning the finances of the City of Covington. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Covington has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Covington's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Covington's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and fairly presents the financial position and results of the operations of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included in this report.

The City of Covington's financial statements have been audited by Von Lehman & Company, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Covington for the fiscal year ended June 30, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion

that the City of Covington's financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Covington was a part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. These reports are available in the City of Covington's Single Audit report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Covington's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Covington, founded in 1815, is located in the northern most part of the state, situated in Kenton County and is part of the Northern Kentucky Region, which ranks as one of the top growth areas in Kentucky. The City of Covington currently occupies a land area of 13.1 square miles and serves an estimated population of 43,235. The City of Covington is empowered to levy numerous taxes and fees. Its major revenue sources include an occupational license tax levied on gross wages and net profits of businesses, an insurance premiums tax and a property tax on both real and personal properties.

The City of Covington operates under the City Manager form of government. Legislative authority is vested in the City Board of Commissioners, consisting of the Mayor and four City Commission members. The Board of Commissioners is responsible for among other things, passing ordinances, adopting the budget, appointing members to various boards, and it approves the hiring of all full time employees. The City Manager reports directly to the Board of Commissioners and is responsible for carrying out policies and ordinances of the City Board of Commissioners and is responsible for the development of short and long range planning, capital improvement programs, and running the day-to-day operations of the city. The City Board of Commissioners is elected on a non-partisan basis. The Mayor serves a four year term and the City Commissioners serve two year terms. The next election for the Mayor will be held in November 2012 with the Mayor taking office on January 1, 2013. The election for the City Commissioners took place on November of 2010 and the new Board of Commissioners will take office on January 1, 2011. The next election for the Board of Commissioners will take place in November of 2012.

The City of Covington provides a full range of services including a full time professional police service and full time professional fire service; advanced life support emergency services; street maintenance and improvement; waste collection services; a full range of recreational areas and activities; cultural events; planning and zoning; housing rehabilitation and development; and public nuisance and zoning code enforcement. In

addition to these activities, the governing body is responsible for funding the Employees' Retirement Fund and the Police and Firemen's Retirement Funds.

The annual budget serves as the foundation for the City of Covington's financial planning and control. Budget targets are set for each city department based on current revenue estimate contained in the five year plan adjusted for current trends. All departments of the City of Covington are required to submit budget requests for appropriation to the City Manager. The budget requests must be within budget targets. The City Manager uses these requests as the starting point for developing a proposed balanced budget. The City Manager then presents the proposed balanced budget to the City Commissioners for review. The final budget is adopted prior to July 1 of each year. The appropriated budget is prepared by fund and department (e.g., police). Department heads may make transfers of appropriations within a department with the approval of the City Manager, or his designee. The City Manager cannot make transfers of appropriations between departments without the approval of the City Commissioners. Expenditures may not legally exceed budgeted appropriations at the departmental level. Any revisions to the budget that would alter total revenues and department expenditures of any fund must be approved by the City Commissioners. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 57-59 as part of the basic financial statements for the governmental funds. For governmental funds with appropriated annual budgets other than the general fund, this comparison is presented in the governmental fund subsection of this report, which starts on page 60. Also included in the governmental fund subsection are project-length budget-to-actual comparisons for each governmental fund for which a project-length budget has been adopted (i.e., the capital projects funds).

Information Useful in Assessing the Economic Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the environment within which the City of Covington operates.

Local economy: Covington has maintained its efforts in developing economic resources in the Greater Cincinnati/Northern Kentucky region. The consistent and persistent effort put forth by Covington's elected and appointed officials and other community leaders over the past twenty years has positioned the City for economic growth in the foreseeable future. According to the 2011 Regional Economic Outlook published by the Northern Kentucky Chamber of Commerce, we have seen the end of the worst recession since the Great Depression. However, the effects linger in terms of weak employment growth. In July of 2010 the unemployment rate in the Cincinnati USA region was 9.8%-unchanged from a year earlier. The Northern Kentucky Chamber of Commerce estimates the regional unemployment rate to be 9.8% for 2010 and forecasts the unemployment rate to average 9.4% in 2011. In addition to a continued weakness in the labor market, the Northern Kentucky Chamber of Commerce anticipates a very slow recovery in the housing market and modest growth in economic activity. Overall, General Fund revenue for the fiscal year ended June 30, 2010 decreased .7% from the fiscal year ended June 30, 2009. Detailed information can be found in the Management Discussion & Analysis in the Financial Section of this report.

In 2010, the City of Covington was selected to receive HUD's Community Challenge Grant in the amount of \$359,300 to create a Downtown Action Plan and Redevelopment Framework. This highly leveraged planning process may include financial analysis, architectural and engineering design, zoning code amendments, marketing plans, market studies, and the development of incentive packages for development.

The Housing Authority of Covington also secured a \$17 million HOPE VI grant for Covington's Eastside neighborhood. The \$17 million grant is leveraged by an additional \$23 million, a portion of which was committed by the City of Covington. The funds will be used to replace barracks style housing with homes that encourage street vitality, leverage public housing grants with private sector equity, and build a mixed income community. The opportunity to build replacement public housing within mixed income communities will create incentives for sustained investment in the Covington East Side. The \$40 million investment is expected to have a \$120 million ripple effect throughout the Covington economy.

In July of 2009, the US Department of Housing and Urban Development as part of the Neighborhood Stabilization Program awarded the City of Covington a \$5 million grant. \$1.75 million of the funds have been earmarked for the development of 19 low income rental units. The balance of the funds will be used to rehabilitate 15 single family homes for resale to owner occupants.

In October of 2007, a \$14.4 million connector road to the Fidelity Investment Campus was officially opened. The completion of the 350,000 square foot addition to the Campus was completed during the fiscal 2008-2009 year. A total of 1,500 new jobs were to be added by the end of 2010 for a total of full time workforce of 4,250. With layoffs announced in November of 2008 and February of 2009, full time employment fell to 3,900 jobs which is still higher than the 2,750 before the expansion but short of the target of 4,250 jobs. The target date for reaching the 4,250 full time jobs has been pushed back from December 2010 to December 2013.

St. Elizabeth Medical Center completed construction of a 125,600 square foot facility that will employ an additional 450 people. Total cost of the construction was \$26.6 million.

Waterfront development plans for Riverfront West Phase I and Riverfront Phase II have been conceptualized and are being heavily supported by local legislators, and business and residential communities. Times Star Commons is a planned public gathering space with a public market development component projected to create an economic impact of \$464 million when completed. The City has received \$1 million from the State for planning this project.

The City of Covington was also awarded a grant in the amount of \$600,000 from the United States Environmental Protection Agency for environmental site assessments and clean up of centrally located business property.

The State of Kentucky awarded \$450,000 to the City of Covington for the development of a Covington Artisans' Enterprise Center. Local artists will use the space for educational sessions, business plan development, marketing, and exhibits.

The National Park Service has approved a \$130,000 grant to implement a cultural and heritage tourism program for Covington. The program will be developed with the cooperation of local cultural and historical organizations. A series of thematic tours will be available in print, compact disc, and MP3 Player format.

In addition, more than \$60 million in residential development projects in the downtown area have been completed. The Ascent at Roebling Bridge is a \$47 million, 80- unit, 21-story condominium tower designed by Daniel Lebskind. The Pulse is a 64-unit, \$13 million loft residential project in the Seminary Square neighborhood. The Views has added 125 residential homes priced from \$180,000 to \$250,000. In addition smaller developments of luxury apartments and commercial storefronts are being constructed throughout the Covington Arts and Technology Zone.

Financial Policies and Planning

The City of Covington established a formal Audit Committee during fiscal year 2008-2009. The Audit Committee was established in accordance with the Section 6 of the Local Government Finance Standards 1994. The primary objective of the Committee is to assist the City Commission in fulfilling its corporate governance and oversight responsibilities relating to accounting and reporting practices imposed under the Local Government Act of 1993 and other relevant legislation. Six members appointed by the City Commission serve on the Committee.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the seventeenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

The preparation of this comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the Department of Finance. Each member has our sincere appreciation for the contributions made in the preparation of this report. We also acknowledge the efforts of other departments who provided information that helped to make the report far more than a presentation of numbers, with a special thanks to Von Lehman & Company. Credit must also be given to the Mayor and Commissioners for their unfailing interest, support, and integrity in directing the City's financial operations.

Respectfully submitted,


Larry Klein
City Manager


Robert J. Due
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Covington
Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

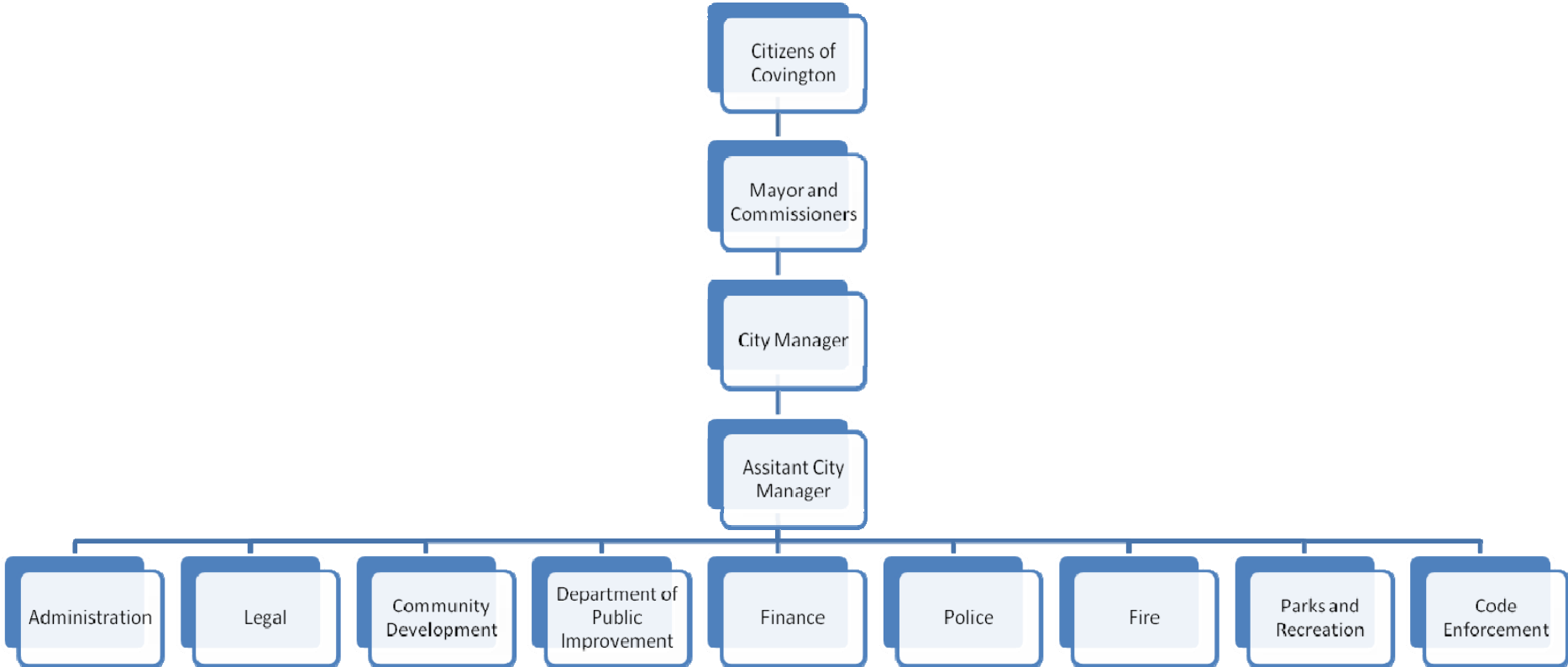
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**CITY OF COVINGTON, KENTUCKY
ORGANIZATIONAL CHART**



**CITY OF COVINGTON, KENTUCKY
LIST OF PRINCIPAL OFFICIALS
June 30, 2010**

MAYOR

Denny Bowman

COMMISSIONERS

Shawn Masters

Sherry Carran

Mildred Rains

Jerry Stricker

STAFF

City Manager – Larry Klein

Assistant City Manager – Larisa Sims

City Solicitor – Frank Warnock

City Clerk – Tracy Denham

Finance Director – Robert J. Due

Chief of Police – Lee Russo

Fire Chief – Mark Young

Director of Public Improvements/City Engineer – Tom Logan

Community Development Director – Jackson Kinney

Director of Code Enforcement – Keith Bales

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Covington, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Devou Properties, Inc. (a non-profit organization), the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Devou Properties, Inc. is based on the report of the other auditors.

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. The financial statements of Devou Properties, Inc. were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 November 19, 2010, on our consideration of the City of Covington, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky
Page Two

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 23 and budgetary comparison schedules on pages 56 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Kentucky basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The other supplementary information and the supplementary schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
November 19, 2010

CITY OF COVINGTON, KENTUCKY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) of the City of Covington, Kentucky's (the City's) financial statements provides readers an overview and analysis of the City's financial position and activities for the fiscal year ended June 30, 2010. The information presented here should be read in conjunction with the City's basic financial statements which immediately follow this analysis.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 24 and 25) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 26. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

This report was published under the standards for governmental financial reporting prescribed by the Governmental Accounting Standards Board in their Statement No. 34 (GASB 34). The GASB 34 model is designed to provide improved information through the elimination of fund transfers and the use of consolidated statements. This model is found in the government-wide financial statements.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$48,218,683 (net assets), and represent a decrease of \$5,190,664 from the prior year. This amount includes \$34,539,885 that is invested in capital assets net of related debt. Another \$91,138 is restricted for debt service and \$13,587,660 is unrestricted and available to fund the City's future obligations, activities, and projects. An increase in accumulated depreciation of \$6,225,164 is one of the reasons for the decrease in net assets and net assets invested in Capital Assets respectively.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$4,488,222, a decrease of \$1,456,771 from the previous year. Of the \$4,488,222 in combined fund balance, \$342,498 in the General Fund was unreserved, undesignated, and available. The City has a minimum reserve retention policy of a minimum of 5% of General Fund revenue. The \$342,498 in General Fund combined with the fund balance of \$1,770,264 in the Working Capital Reserve Special Revenue Fund equals \$2,112,762 or 4.6% of General Fund revenue. Last fiscal year, the City's fund balance in General Fund and Working Capital Reserve was \$2,542,233, or 5.4% of General Fund revenue.

Government-Wide Financial Statements

Government-Wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements utilize the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual accounting means the financial statements recognize revenue when it is earned and expense when it is incurred regardless of when the cash is actually received or paid.

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

The Statement of Net Assets presents information on all City assets and liabilities as of June 30, 2010. Net assets are the difference between the assets and liabilities. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. In assessing the City's condition, other factors must be considered as well, such as changes in the City's property tax base, occupational license tax base, and the condition of the City's capital assets (roads, buildings, equipment, and sidewalks) to assess the overall health of the City.

The Statement of Activities presents the City's annual revenues and expenses as well as any other transactions that increase or decrease net assets. Program revenues are offset by program expenses in order to provide net program costs that are financed by general government revenues.

The government-wide statements divide the City functions into two kinds of activities:

- **Governmental activities:** Most of the City's basic services are reported here, including police, fire, street maintenance, parks and recreation, and general administration services. Payroll occupational license fees, property taxes, and net profit license fees, and insurance premiums license tax, and service charges finance most of these activities.

- **Component Units:** Devou Properties Inc. was formed to maintain and operate the Drees Pavilion at Devou Memorial Overlook for the benefit of Devou Park which is owned by the City. Although a legally separate entity, Devou Properties is included in these financial statements because of its financial accountability to the City.

Fund Financial Statements

Fund financial statements report the City's operations in more detail than the government-wide statements. The analysis of the City's major funds begins on page 57. The non-major fund financial statements begin on page 63. Some funds are required to be established by State law or by bond covenants. However, the City Commission may establish many other funds to help control and manage money for particular purposes (i.e., Police Forfeiture Fund, Devou Park Maintenance Fund, City Hall Operations Fund, etc.) or to show that it is meeting legal responsibilities for grant funds (i.e. Community Development Block Grant Fund, Housing Voucher Fund, HOME Program Fund, etc.). The City's reports financial activity under three kinds of funds, governmental and proprietary, and fiduciary.

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation attached to the fund financial statements. The City considers the General Fund, Community Development Block Grant Fund, HOME Program Fund, and Housing Voucher Fund to be major governmental funds.

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Proprietary funds: When the City charges customers for the full cost of the services it provides whether to outside customers or to other units of the City, these services are reported in proprietary funds. The subcategories of the funds include enterprise funds, which are business-type activities and internal service funds, which report services provided to internal units of government. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City has no enterprise funds and reports two internal service funds, the Liability Self Insurance Fund and the Medical and Dental Self Insurance Fund.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Covington's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City is trustee, or fiduciary for two retirement funds. The Police and Firemen's Pension Fund is a closed pension that is held solely for trust beneficiaries. The Employees' Retirement fund has two active employee members and is also held solely for trust beneficiaries.

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Statement of Net Assets

For the year ended June 30, 2010, net assets changed as follows:

	Governmental Activities 2010	Governmental Activities 2009	Increase (Decrease) From FYE 09
Current and other assets	\$ 30,359,689	\$ 29,205,060	\$ 1,154,629
Capital assets	59,534,627	63,115,916	(3,581,289)
Other Non Current Assets	8,046,616	8,539,255	(492,639)
Total assets	<u>97,940,932</u>	<u>100,860,231</u>	<u>(2,919,299)</u>
Current liabilities	13,494,421	10,017,697	3,476,724
Non-current liabilities	36,227,828	37,433,187	(1,205,359)
Total liabilities	<u>49,722,249</u>	<u>47,450,884</u>	<u>2,271,365</u>
Net assets:			
Invested in capital assets, net of debt	34,539,885	36,577,167	(2,037,282)
Restricted	91,138	193,693	(102,555)
Unrestricted	13,587,660	16,638,487	(3,050,827)
Total net assets	<u>\$ 48,218,683</u>	<u>\$ 53,409,347</u>	<u>\$ (5,190,664)</u>

The total assets of the City on June 30, 2010 were \$97.9 million, while total liabilities were \$49.7 million, resulting in net assets of \$48.2 million. The largest component of the City's net assets, \$34.5 million, or 71.6%, reflects its investment in capital assets. Unrestricted net assets which represent funds that may be used at the City's discretion decreased \$3.1 million. Total net assets decreased by \$5.2 million.

Budgetary constraints have caused investment in capital assets to fall significantly below current year depreciation for the second consecutive year. Decrease in capital assets make up \$3.6 million of the \$5.2 million decrease in net assets. Maintaining current service levels and current staffing has been the priority in lieu of infrastructure for the past two fiscal years while the slowing economy has meant no revenue growth. A Financial Recovery Plan that is currently in development has a primary goal of restoring capital investment to a higher level while maintaining a structurally balanced budget.

Several federal and non federally projects extended over the end of the 2010 year and into the 2011 fiscal year resulting in higher than normal accounts payable balances and corresponding decrease in net assets.

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Statement of Activities

	Activities 2010	Activities 2009	(Decrease) From 2009
Revenues:			
Program revenues:			
Charges for services	\$ 6,008,507	\$ 5,517,552	\$ 490,955
Operating grants and contributions	10,727,972	9,664,170	1,063,802
Capital grants	1,624,312	1,650,920	(26,608)
General revenues:			
Taxes	40,338,234	41,346,331	(1,008,097)
Interest	25,094	112,064	(86,970)
Other	1,298,108	1,495,817	(197,709)
Total revenues	<u>60,022,227</u>	<u>59,786,854</u>	<u>235,373</u>
Expenses:			
General government	6,089,518	11,008,141	(4,918,623)
Police	16,498,516	15,847,046	651,470
Fire	15,048,966	15,113,010	(64,044)
Public Improvements	11,847,116	7,185,210	4,661,906
Recreation	796,215	2,740,960	(1,944,745)
Housing and economic developmen	12,484,045	10,217,357	2,266,688
Parking Garage	732,362	701,986	30,376
Interest on long term debt	1,716,153	2,052,549	(336,396)
Total expenses	<u>65,212,891</u>	<u>64,866,259</u>	<u>346,632</u>
Increase in net assets before transfers and other expenses	(5,190,664)	(5,079,405)	(111,259)
Transfers	-	-	-
Other expenses	-	-	-
Increase in net assets	<u>(5,190,664)</u>	<u>(5,079,405)</u>	<u>(111,259)</u>
Net assets - July 1	53,409,347	58,488,752	(5,079,405)
Net assets - June 30	<u>\$ 48,218,683</u>	<u>\$ 53,409,347</u>	<u>\$ (5,190,664)</u>

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Revenues for the City's governmental activities were \$60,022,227, an increase of \$235,373 from the prior year. Taxes which include occupational license fees, property taxes, insurance premiums taxes, and net profit taxes decreased \$1,008,907 (2.4%) and represent 67.2% of all revenue. For the first time in more than twenty five years, the revenue from the payroll tax portion of the occupational license fee was less than the prior year. \$847,017 or, 3.6% less in payroll taxes were collected in fiscal year 2010 compared to fiscal year 2009. The general economic slowdown and jobless recovery has had an impact on revenue. Operating grants and contributions increased by \$1,063,802. A grant awarded by the US Department of Housing and Urban Development as part of the neighborhood Stabilization Program is the reason for the increase. Funds are being used to rehabilitate and develop rental units and single family homes for resale to owner occupants.

Total expenses for the City's governmental activities were \$65.2 million, a 0.5% increase from the prior year. Expenses which were classified under General Government in the past now are reflected under the new Department of Public Improvements which also absorbed the recreation maintenance activities which had been part of the Recreation Department. The increase in Housing and Community Development was caused by the Neighborhood Stabilization Project referenced above as well as other federal stimulus dollars.

Fund Financial Statements

GENERAL FUND

The following schedules and charts present a summary of the General Fund revenues and expenditures for the fiscal year ended June 30, 2010, and the amount and percentage of increases and decreases in relation to the prior year.

<u>Revenues</u>	<u>FYE 2010 Amount</u>	<u>Percent Of Total</u>	<u>Increase (Decrease) From FYE 2009</u>	<u>Percent Increase (Decrease)</u>
Taxes	\$ 14,194,342	30.63%	\$ 272,596	1.95%
Licenses and permits	25,429,776	54.88%	(1,120,553)	-4.22%
Intergovernmental	6,128,863	1.32%	(125,662)	-17.01%
Fines and forfeitures	746,322	1.61%	34,250	4.80%
Charges for services	4,937,078	10.65%	474,101	10.62%
Interest	1,353	0.00%	(20,377)	-93.77%
Miscellaneous	422,738	0.91%	7,081	1.70%
Total revenues	\$ 46,344,472	100.01%	\$ (478,564)	1.02%

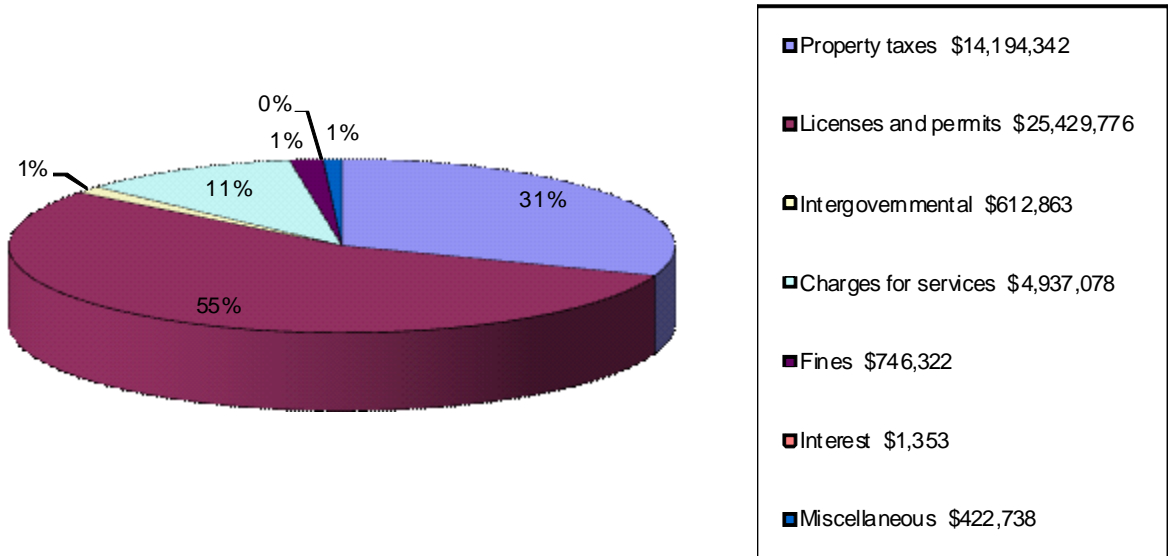
Taxes which include real estate taxes, personal property taxes, and insurance premiums taxes increased modestly by \$272,596. Total taxable assessed value increased \$56.6 million, or 2.7% to a total of 2.1 billion dollars.

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Occupational License revenue includes both a payroll occupational license fee and a net profit occupational license fee on businesses. The payroll occupational license fee decreased \$847,017, or 3.6% and the net profit occupational license fee decreased \$271,695, or 10.6% from the prior fiscal year. The rate of decline in both the payroll and net profit occupational license fee has stopped and both seem to have leveled off during the first quarter of the 2011 fiscal year. There is a real potential however that the occupational license fees could continue flat until the end of 2011.

Interest income, which by contract is tied to Federal Funds rate, decreased due to historic low near zero Federal Fund rate.

**2010
General Fund Revenues**



**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

<u>Expenditures</u>	<u>FYE 2010 Amount</u>	<u>Percent Of Total</u>	<u>Increase (Decrease) From FYE 2009</u>	<u>Percent Increase (Decrease)</u>
General government \$	2,955,869	6.83%	\$ 33,882	1.15%
Public safety	28,336,914	65.43%	1,141,491	4.19%
Public Improvements	6,514,905	15.05%	(175,598)	-2.62%
Recreation	504,309	1.16%	(2,028,794)	-80.09%
Housing and economic development	3,544,888	8.19%	2,092,450	144.06%
Parking garage	732,362	1.69%	30,376	4.32%
Debt service	713,174	1.65%	(106,365)	12.97%
 Total expenditures \$	 <u>43,302,421</u>	 <u>99.99%</u>	 <u>\$ 987,442</u>	 2.33%

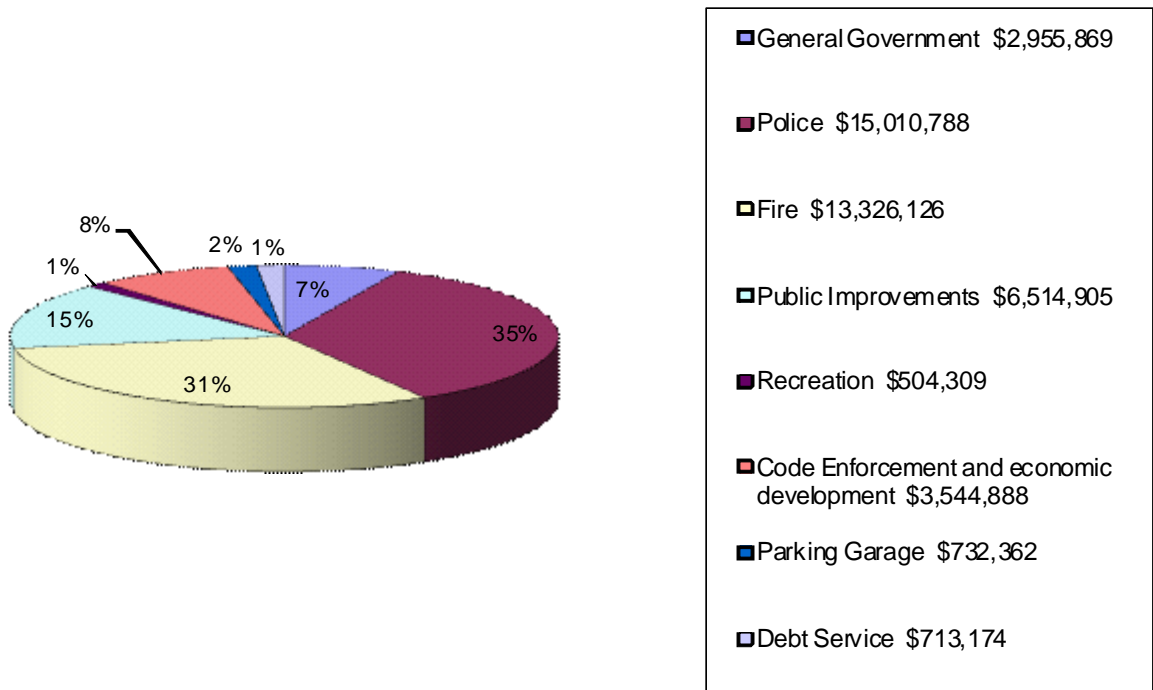
Expenditures increased from the prior year by 2.33%, or \$987,442. Personnel Costs represent 80.0% of all General Fund expenditures before transfers out to other funds. Total personnel costs increased \$1,490,414, or 4.5%. The impact in personnel costs were felt across all departments but especially in public safety with a \$259,386 increase in overtime costs and \$632,266 increase in hazardous pension costs.

All other major expense categories with the exception of personnel were less than the prior year because of cost control measures put in place to maintain current service levels and current staffing.

Variations from prior year costs in Public Improvements, Recreation, and Housing and Economic Development were a result of a comprehensive reorganization of those departments.

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

**2010
General Fund Expenditures**



Other Governmental Funds

The City's governmental funds reported a combined ending fund balance of \$4,488,222, a decrease of \$1,456,771 from the previous year. General Fund Balance decreased \$429,471 of the \$1,456,771 total decrease.

The US Department of Housing and Urban Development (HUD) is the funding source for the Housing Voucher Program. During the year, actual assistance payments to landlords exceeded payments from HUD by \$690,822. A fund balance had accrued in the past which HUD had not reclaimed as unspent funds. HUD began to spend down the fund balance this current year causing the decrease in fund balance.

The Sewer Maintenance Fund Special Revenue Account decreased \$92,396. The Sewer Maintenance Fund Special Revenue Fund is used to retire debt owed to the Northern Kentucky Sanitation District. The debt has been retired and the fund will be closed.

The increase in Newport Steel UDAG Fund is the result of payments received on Economic Development loans issued by the City. The funds received will be available to lend again in an effort to facilitate business activity and job growth.

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

The Working Capital Reserve fund balance showed no change in fiscal year 2010 and no contributions were made because of budget constraints. The fund balance from the Working Capital Reserve is combined with the fund balance of the General Fund to calculate the City's progress toward a minimum 5% of General Fund revenue fund balance retention policy. Disbursements from the fund can only be made by resolution adopted by the Board of Commissioners. No disbursements from the Working Capital Reserve have been approved since its inception.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City Commission approved revisions of the General Fund budget one time. The total budget was not changed. The General Fund revenue budget was also not changed. Only the departmental budgets were adjusted.

The budget amendment was made to more closely reflect the anticipated actual expense for the year and to formally adopt as part of the budget changes in staff or activities that were approved by the City Commission during the year.

General Fund revenue including "transfers in" was 99.4% of budget and General Fund expense including "transfers out" was 100.3% of budget. An unexpected spike in health care claims at the end of the fiscal year was the reason expenses exceeded budget by a small percentage.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt Administration

At year-end, the City had \$39,910,621 in outstanding notes, capital leases, bonds, and uncompensated absences compared to \$42,006,452 the prior year. The following is a summary of the changes in the City's outstanding long-term debt from fiscal year 2009 to fiscal year 2010.

	Governmental Activities	
	2010	2009
Mortgage Bonds Payable (Backed by City)	\$ 20,300,563	\$ 21,015,581
Note Payable (Backed by City)	510,031	606,130
Capital Lease Obligation (Backed by City)	17,663,351	18,781,698
Compensated Absences	1,436,676	1,603,043
Totals	\$ 39,910,621	\$ 42,006,452

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

The Kentucky Infrastructure Authority approved an American Recovery and Reinvestment Act loan for the Prisoner's Lake Rainwater Harvest Project. The loan shall not exceed \$1.2 million. Principal forgiveness of up to 52.1% of the loan will be granted upon successful completion of the project. The project involves harvesting rainwater for irrigation by pumping water from Prisoner's Lake into a nearby irrigation pond that is located on Devou Park Golf Course. Both the Lake and the Golf Course is owned by the City of Covington. The primary purpose of the project is to eliminate outflow from Prisoner's Lake that is currently discharged into the Sanitation District combined sewer system. The project will also reduce the amount of water that is purchased to irrigate the golf course. The Sanitation District has agreed to pay 75% of principal and interest on the portion of the loan that is not forgiven. The project was complete subsequent to the end of the 2010 fiscal year. Total drawdown on the \$1.2 million loan was \$1,197,390 of which \$623,840 will be forgiven. No other debt was issued.

Principal payments of \$2,980,841 were made during the year.

The Kentucky Constitution states that the total principal amount of City indebtedness, which excludes self-supporting obligations, revenue bonds, special assessment debt, and non-tax supported debt, cannot exceed 10% of the value of taxable property in the City. The debt limit for the City of Covington is \$206 million.

Additional information on the City's long-term debt can be found on pages 45-50.

Capital Assets

The City's capital assets, net of depreciation as of June 30, 2010 totaled \$59,534,627, a decrease of \$3,581,289 from last year.

This year's major capital additions are as follows:

Infrastructure including street resurfacing etc	\$ 1,167,821
Rainwater Harvest Project	1,040,503
Building & Land Improvements	
Energy Savings Improvements	625,291
Parking Garages	26,290
Communication Systems for Public Safety	35,342
Police Cruisers	253,550
Ambulance	150,010

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

The following is a summary of changes in the City's capital assets from fiscal year 2009 to fiscal year 2010.

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Land	\$ 14,621,581	\$ 14,971,764
Land improvements	1,396,212	1,288,802
Building	23,269,494	23,114,294
Building Improvements	8,797,199	8,477,032
Vehicles	10,436,047	10,213,327
Other equipment	4,802,071	4,780,087
Public domain infrastructure	108,745,173	106,537,828
Construction in progress	<u>1,040,563</u>	<u>1,242,099</u>
TOTALS	\$ <u><u>173,108,340</u></u>	\$ <u><u>170,625,233</u></u>

The Engineering Department presented an evaluation of Covington's worst streets and proposed a strategy to address the funding needs. An estimate of \$7.5 million of capital investment would be required to address the worst streets. An investment of this amount would also mean that future capital requirements for ongoing preventive and routine street maintenance could be budgeted at approximately \$2 to \$3 million annually. Budget priority will be given in fiscal year 2010-2011 to address the targeted worst streets although financial conditions will not allow full funding for ongoing preventive and routine maintenance.

Additional information on the City's capital assets can be found on page 42.

**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget for the 2011 fiscal year was developed to maintain current levels of City services and staffing. Capital investment in infrastructure and fleet and increasing the General Fund and Working Capital Reserve fund balances have been postponed to balance the fiscal year 2011 budget. Control of salary and health care costs and continuation of basic city services without any layoffs or other service reductions remain the primary goal. The City is however committed to a structurally balanced budget and will not permit further erosion of the General Fund and Working Capital Reserve fund balances

Significant progress had been made on increasing the City's financial reserves. As discussed in the financial highlights, the combined fund balance in the General Fund and the Working Capital Reserve is \$2,112,762, or 4.6%, of General Fund revenue. Five years ago, the combined fund balance in the General Fund and Working Capital Reserve was \$235,127, or .6%, of General Fund revenue. The utilization of fund balance to offset the operating deficit from the 2010 fiscal year is a temporary measure to allow sufficient time to develop an appropriate Financial Recovery Plan.

The City, however, continues to under fund its capital investment. Over the next five years an investment of \$47.2 million is required. The 2011 budget includes only \$3.9 million in capital investment which is well short of the \$9.4 million per year average that is required. A major part of the Financial Recovery will include a more aggressive and significant investment in the City's infrastructure.

The economic outlook is grim for the coming year. Revenue estimates have been reduced. The housing mortgage crisis and credit crunch will continue to dampen growth. With the economic slowdown, job expansion is not expected until after June 30, 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert J. Due, Finance Director, 638 Madison Avenue, Covington, Kentucky 41011. Questions or requests for additional information can also be e-mailed to bdue@covingtonky.gov.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government	Component Unit
	Governmental Activities	Devou Properties, Inc.
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 5,029,515	\$ 2,165,495
Receivables		
Property Taxes	845,495	-
Intergovernmental	1,245,312	-
Notes	14,979,456	-
Accounts	6,997,736	112,033
Prepays	236,899	3,219
Due from Pension Trust Funds	1,025,276	-
Total Current Assets	30,359,689	2,280,747
Noncurrent Assets		
Deferred Charges, Net	302,318	-
Deferred Outflow - Hedges	1,389,949	-
Net Pension Obligation Asset	6,354,349	-
Land and Construction in Progress	17,058,356	-
Depreciable Capital Assets	156,049,984	17,184
Less Accumulated Depreciation	(113,573,713)	(13,818)
Total Noncurrent Assets	67,581,243	3,366
Total Assets	97,940,932	2,284,113
Liabilities		
Current Liabilities		
Accounts Payable	3,235,508	27,278
Accrued Liabilities	3,226,299	17,319
Accrued Interest Payable	117,521	-
Unearned Revenue	1,654,927	315,630
Line of Credit	187,424	-
Accumulated Compensated Absences	1,436,676	-
Current Portion of Capital Lease Obligations	1,163,247	-
Current Portion of Bonds and Notes Payable	2,472,819	-
Total Current Liabilities	13,494,421	360,227
Noncurrent Liabilities		
Noncurrent Portion of Capital Lease Obligations	16,500,104	-
Noncurrent Portion of Bonds and Notes Payable	18,337,775	-
Derivative Instrument - Liability	1,389,949	-
Total Noncurrent Liabilities	36,227,828	-
Total Liabilities	49,722,249	360,227
Net Assets		
Invested in Capital Assets, Net of Related Debt	34,539,885	3,366
Restricted for Debt Service	91,138	-
Unrestricted	13,587,660	1,920,520
Total Net Assets	\$ 48,218,683	\$ 1,923,886

See accompanying notes

CITY OF COVINGTON, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit</u>
Primary Government						
Governmental Activities						
General Government	\$ 6,089,518	\$ 1,136,249	\$ -	\$ 1,058,463	\$ (3,894,806)	
Police	16,498,516	412,722	959,053	78,815	(15,047,926)	
Fire	15,048,966	1,282,105	-	-	(13,766,861)	
Public Improvements	11,847,116	1,918,838	466,655	487,034	(8,974,589)	
Recreation	796,215	-	-	-	(796,215)	
Community Development	12,484,045	79,317	9,302,264	-	(3,102,464)	
Parking Garage	732,362	1,179,276	-	-	446,914	
Interest on Long-Term Debt	1,716,153	-	-	-	(1,716,153)	
Total Governmental Activities	<u>65,212,891</u>	<u>6,008,507</u>	<u>10,727,972</u>	<u>1,624,312</u>	<u>(46,852,100)</u>	
Total Primary Government	<u>\$ 65,212,891</u>	<u>\$ 6,008,507</u>	<u>\$ 10,727,972</u>	<u>\$ 1,624,312</u>	<u>(46,852,100)</u>	
Component Unit						
Devou Properties, Inc.	<u>\$ 430,591</u>	<u>\$ 888,544</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 457,953</u>
General revenues:						
Taxes						
Real Property Taxes, Levied for General Purposes					6,114,035	-
Personal Property Taxes, Levied for General Purposes					557,999	-
Public Service Taxes					2,085,706	-
Taxes, Levied for Bank Deposits					60,603	-
Insurance Premium Taxes					5,588,067	-
Payroll Taxes					22,850,229	-
Net Profits Taxes					2,285,504	-
Other Taxes					796,091	-
Investment Earnings					25,094	4,628
Miscellaneous					1,298,108	-
Total General Revenues					<u>41,661,436</u>	<u>4,628</u>
Change in Net Assets					(5,190,664)	462,581
Net Assets June 30, 2009					<u>53,409,347</u>	<u>1,461,305</u>
Net Assets June 30, 2010					<u>\$ 48,218,683</u>	<u>\$ 1,923,886</u>

See accompanying notes

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

	General Fund	Community Development Block Grant	HOME Program	Housing Voucher Program	Non-Major Governmental Funds	Total Governmental Funds
Assets						
Cash and Cash Equivalents	\$ 267,882	\$ -	\$ 59,483	\$ 966,714	\$ 1,736,748	\$ 3,030,827
Receivables						
Taxes	845,495	-	-	-	-	845,495
Intergovernmental	-	319,243	91,325	-	834,744	1,245,312
Notes	-	6,100,914	6,084,027	-	2,794,515	14,979,456
Accounts	6,037,374	-	-	8,887	874,419	6,920,680
Due from Other Funds	2,917,709	501,846	68,576	-	2,363,081	5,851,212
Prepays	-	-	-	-	239,664	239,664
Total Assets	\$ 10,068,460	\$ 6,922,003	\$ 6,303,411	\$ 975,601	\$ 8,843,171	\$ 33,112,646
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$ 2,671,049	\$ 158,827	\$ -	\$ 46,117	\$ 353,005	\$ 3,228,998
Accrued Liabilities	1,531,943	-	-	-	-	1,531,943
Due to Other Funds	2,765,861	8,409	18,481	4,688	2,058,943	4,856,382
Deferred Revenue	2,757,109	6,754,767	6,084,027	56,777	3,354,421	19,007,101
Total Liabilities	9,725,962	6,922,003	6,102,508	107,582	5,766,369	28,624,424
Fund Balances						
Reserved for:						
Prepays	-	-	-	-	59,664	59,664
Unreserved						
Undesignated, Reported In						
General Fund	342,498	-	-	-	-	342,498
Special Revenue Funds	-	-	200,903	868,019	2,938,984	4,007,906
Capital Projects Funds	-	-	-	-	(12,984)	(12,984)
Debt Service Funds	-	-	-	-	91,138	91,138
Total Fund Balances	342,498	-	200,903	868,019	3,076,802	4,488,222
Total Liabilities and Fund Balances	\$ 10,068,460	\$ 6,922,003	\$ 6,303,411	\$ 975,601	\$ 8,843,171	\$ 33,112,646

See accompanying notes

CITY OF COVINGTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2010

Total Fund Balance - Governmental Funds \$ 4,488,222

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 in this fund financial statement but are reported in the governmental activities of the Statement of Net Assets.

Cost of Capital Assets	\$ 173,108,340	
Accumulated Depreciation	(113,573,713)	
		59,534,627

Certain other long-term assets are not available to pay current period expenditures and are therefore deferred in the funds. 17,352,174

Internal service funds are used by management to charge the cost of certain activities, such as liability and health and dental insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets. The assets and liabilities of the internal service funds are:

Cash and Cash Equivalents	1,998,688	
Accounts Receivable	77,056	
Due From Other Funds	450,000	
Accounts Payable	(9,275)	
Estimated Liability for Claims	(1,694,356)	
Due to Other Funds	(419,554)	
		402,559

Deferred charges represent costs related to the issuance of new bonds and also refunding costs. Deferred charges are reported as an other use of funds in the governmental funds statements. However, on the government wide statement of net assets these costs are capitalized and reported as a deferred charge, and amortized over the life of the related bonds. 302,318

Net pension obligation asset represents contributions made to the City's pension funds in excess of the actuarially required contribution. The excess contributions are capitalized and amortized. 6,354,349

Interest payable on long term debt does not require current financial resources. Therefore accrued interest payable is not reported as a liability in the governmental funds balance sheet. (117,521)

Some capital additions were financed through a line of credit. In governmental funds, a line of credit is considered a source of financing, but in the Statement of Net Assets, the obligation is reported as a liability. (187,424)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds Payable	20,810,594	
Capital Lease Obligations Payable	17,663,351	
Compensated Absences Payable	1,436,676	
		(39,910,621)

Total Net Assets - Governmental Activities **\$ 48,218,683**

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	<u>General Fund</u>	<u>Community Development Block Grant</u>	<u>HOME Program</u>	<u>Housing Voucher Program</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 14,194,342	\$ -	\$ -	\$ -	\$ 792,712	\$ 14,987,054
Licenses and Permits	25,429,776	-	-	-	-	25,429,776
Intergovernmental	612,863	2,308,319	515,173	5,526,721	3,203,571	12,166,647
Charges for Services	4,937,078	-	-	-	289,995	5,227,073
Fines and Forfeitures	746,322	-	-	-	-	746,322
Investment Earnings	1,353	-	60	577	22,449	24,439
Miscellaneous	422,738	344,753	147,428	5,599	430,835	1,351,353
Total Revenues	<u>46,344,472</u>	<u>2,653,072</u>	<u>662,661</u>	<u>5,532,897</u>	<u>4,739,562</u>	<u>59,932,664</u>
Expenditures						
Current						
General Government	2,955,869	-	-	-	829,845	3,785,714
Police	15,010,788	-	-	-	582,706	15,593,494
Fire	13,326,126	-	-	-	486,808	13,812,934
Public Improvements	6,514,905	-	-	-	-	6,514,905
Recreation	504,309	-	-	-	-	504,309
Community						
Development	3,544,888	1,037,835	638,533	6,223,719	730,822	12,175,797
Parking Garages	732,362	-	-	-	-	732,362
Debt Service						
Principal	503,716	67,000	-	-	2,410,125	2,980,841
Interest and Other Charges	209,458	25,740	-	-	1,444,656	1,679,854
Capital Outlay	-	1,573,497	-	-	3,409,031	4,982,528
Total Expenditures	<u>43,302,421</u>	<u>2,704,072</u>	<u>638,533</u>	<u>6,223,719</u>	<u>9,893,993</u>	<u>62,762,738</u>
Excess (Deficit) of Revenues Over Expenditures	<u>3,042,051</u>	<u>(51,000)</u>	<u>24,128</u>	<u>(690,822)</u>	<u>(5,154,431)</u>	<u>(2,830,074)</u>
Other Financing Sources (Uses)						
Transfers In	1,231,004	-	-	-	4,797,119	6,028,123
Proceeds from Sale of Capital Assets	9,700	368,000	-	-	155,040	532,740
Proceeds from Issuance of Debt	-	-	-	-	1,040,563	1,040,563
Transfers Out	(4,712,226)	(317,000)	-	-	(1,198,897)	(6,228,123)
Total Other Financing Sources (Uses)	<u>(3,471,522)</u>	<u>51,000</u>	<u>-</u>	<u>-</u>	<u>4,793,825</u>	<u>1,373,303</u>
Net Change in Fund Balances	(429,471)	-	24,128	(690,822)	(360,606)	(1,456,771)
Fund Balance July 1, 2009	<u>771,969</u>	<u>-</u>	<u>176,775</u>	<u>1,558,841</u>	<u>3,437,408</u>	<u>5,944,993</u>
Fund Balance June 30, 2010	<u>\$ 342,498</u>	<u>\$ -</u>	<u>\$ 200,903</u>	<u>\$ 868,019</u>	<u>\$ 3,076,802</u>	<u>\$ 4,488,222</u>

See accompanying notes

CITY OF COVINGTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

Change in Fund Balances - Total Governmental Funds \$ (1,456,771)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital Outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense exceeds capital outlays in the period.

Depreciation Expense	\$	(6,225,164)	
Capital Outlays		<u>3,290,553</u>	
			(2,934,611)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the net book value of the asset sold. (646,678)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 414,324

Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 2,970,027

The Statement of Activities reports annual pension cost, which includes the actuarially required contribution along with an interest factor and adjustment of the net pension obligation asset. (1,830,832)

Accrued interest not reflected on Governmental funds. 15,459

In the Statement of Activities, compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The additional expense reported in the statement of activities is a result of the change in long-term accumulated sick leave. 166,367

Repayments of line of credit is an expenditure in the governmental funds, but it reduces liabilities in the statement of net assets and does not affect the statement of activities. 10,815

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. (1,040,563)

Costs related to the issuance of new bonds and deferred refunding costs are reported as an other use of funds in the governmental funds financial statements. However, on the government-wide statement of net assets, these costs are capitalized and reported as a deferred charge, and subsequently amortized over the life of the related bonds. This is the amount of current year amortization expense. (51,756)

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. (806,445)

Total Change in Net Assets - Governmental Activities \$ (5,190,664)

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 1,998,688
Accounts Receivable	77,056
Due from Other Funds	<u>450,000</u>
Total Assets	<u>2,525,744</u>
 Liabilities	
Current Liabilities	
Accounts Payable	9,275
Estimated Liability for Claims	1,694,356
Due to Other Funds	<u>419,554</u>
Total Liabilities	<u>2,123,185</u>
 Net Assets	
Unrestricted	\$ <u><u>402,559</u></u>

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2010

	Governmental Activities <hr/> Internal Service Funds <hr/>
Operating Revenues	
Insurance Premium Payments	\$ 5,997,410
Other Operating Revenues	<u>306,420</u>
Total Operating Revenues	<u>6,303,830</u>
Operating Expenses	
Contractual Services	576,592
Claims and Judgments	<u>6,734,340</u>
Total Operating Expenses	<u>7,310,932</u>
Operating Loss	(1,007,102)
Non-Operating Revenues	
Investment Income	<u>657</u>
Loss Before Transfers	(1,006,445)
Transfers In	<u>200,000</u>
Change in Net Assets	(806,445)
Net Assets July 1, 2009	<u>1,209,004</u>
Net Assets June 30, 2010	<u><u>\$ 402,559</u></u>

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2010

	<u>Governmental Activities Internal Service Funds</u>
Cash Flows From Operating Activities	
Cash Received from Other Funds	\$ 6,956,287
Cash Received from Other Activities	306,420
Cash Paid for Claims	<u>(6,897,772)</u>
Net Cash Provided by Operating Activities	364,935
Cash Flows from Non-Capital Financing Activities	
Transfer from Other Funds	200,000
Cash Flows from Investing Activities	
Interest Income	<u>657</u>
Net Change in Cash	565,592
Cash and Cash Equivalents July 1, 2009	<u>1,433,096</u>
Cash and Cash Equivalents June 30, 2010	<u><u>\$ 1,998,688</u></u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating Loss	\$ (1,007,102)
Change in Assets and Liabilities	
Accounts Receivable	(77,056)
Due from Other Funds	643,740
Accounts Payable	6,484
Estimated Liability Claims	406,676
Due to Other Funds	<u>392,193</u>
Net Cash Provided by Operating Activities	<u><u>\$ 364,935</u></u>

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2010

	Fiduciary Funds		
	Employees' Retirement	Police and Firemen's Pension	Totals
Assets			
Cash and Cash Equivalents	\$ 311,719	\$ 1,215,885	\$ 1,527,604
Investments - Mutual Funds	3,684,603	8,748,202	12,432,805
 Total Assets	 3,996,322	 9,964,087	 13,960,409
Liabilities			
Interfund Loans	177,765	847,511	1,025,276
Net Assets			
Held in Trust for Pension Benefits	\$ 3,818,557	\$ 9,116,576	\$ 12,935,133

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2010

	Fiduciary Funds		
	Employees' Retirement	Police and Firemen's Pension	Totals
Additions			
Contributions			
Employee Contributions	\$ 8,567	\$ -	\$ 8,567
Impounding Lot	-	108,113	108,113
Total Revenues	<u>8,567</u>	<u>108,113</u>	<u>116,680</u>
Investment Earnings			
Interest and Dividends	140,314	340,708	481,022
Net Appreciation in Fair Value of Investments	<u>451,733</u>	<u>1,084,750</u>	<u>1,536,483</u>
Total Investment Earnings	<u>592,047</u>	<u>1,425,458</u>	<u>2,017,505</u>
Total Additions	<u>600,614</u>	<u>1,533,571</u>	<u>2,134,185</u>
Deductions			
Benefit Payments	614,535	1,620,199	2,234,734
Administration	35,443	42,006	77,449
Impounding Lot	-	3,610	3,610
Total Deductions	<u>649,978</u>	<u>1,665,815</u>	<u>2,315,793</u>
Change in Net Assets	(49,364)	(132,244)	(181,608)
Net Assets July 1, 2009	<u>3,867,921</u>	<u>9,248,820</u>	<u>13,116,741</u>
Net Assets June 30, 2010	<u>\$ 3,818,557</u>	<u>\$ 9,116,576</u>	<u>\$ 12,935,133</u>

See accompanying notes.

**CITY OF COVINGTON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The basic financial statements of the City of Covington, Kentucky, have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Financial Reporting Entity

The City of Covington is a municipality that operates under a City Manager form of government. Legislative authority is vested in the elected Mayor and four City Commissioners. As required by U.S. generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit of the City has a June 30 year end. The component units discussed below are included in the City's reporting entity as part of the primary government because of the significance of its operational and/or financial relationship with the City.

Blended Component Units Included Within the Reporting Entity:

City of Covington Non-Uniformed Employees' Pension Fund

Certain City employees participate in the non-uniformed employee pension fund. The fund functions for the benefit of these employees and is governed by a four member board of trustees. The mayor, finance director, and two appointed and approved employees constitute the board. The City and plan participants are obligated to fund all costs based upon actuarial valuations.

City of Covington Police and Firemen's Pension Fund

All public safety employees who retired prior to August 1, 1989 participate in the Police & Firemen's Pension Fund. The fund functions for the benefit of the retirees and is governed by a four member board of trustees, the mayor, finance director and two public safety retirees. The City is obligated to fund all costs based upon actuarial valuations.

City of Covington Municipal Properties Corporation

The City of Covington Municipal Properties Corporation was formed to act as an agent and to be instrumental in the financing of public improvements and projects of a capital nature for the City and for the particular purpose of acquiring real estate located within the City and constructing, acquiring and equipping thereon capital improvements, facilities, buildings, structures and related appurtenances. The Corporation finances these projects by the issuance of debt. These debt issues are secured by (1) first mortgage liens on the projects, (2) lease and option agreements between the Corporation and the City, the construction agreements and pledged receipts. The lease and option agreements require the City to pay rental, on a yearly basis with the option to renew each year, equal to the amount of bonds and interest coupons coming due in that year. If the City renews the leases from year-to-year, and pays the rentals for each year as stipulated, and when the Corporation has fully paid and retired all of the bonds, the Corporation agrees it will convey the properties to the City free and clear.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Units Included Within the Reporting Entity:

Devou Properties, Inc. (a non-profit organization) is included in the City's financial statements as a discretely presented component unit. Although a legally separate entity, Devou Properties, Inc. is included in these financial statements because of its financial accountability to the City. Devou Properties, Inc. was formed to maintain and operate the Drees Pavilion at Devou Memorial Overlook for the City of Covington, for the benefit of Devou Park. Devou Properties, Inc. is responsible for renting out the facilities for events, including weddings, receptions and corporate events. Directors of Devou Properties, Inc. are appointed by the City's Board of Commissioners, upon the recommendation of the Mayor. Any excess funds from operations of the facility are to be set aside to be used on Devou Park projects. As a discretely presented component unit, the financial statements of Devou Properties, Inc. are only included on the City's government-wide financial statements in a column that makes it clearly separate from the primary government. Devou Properties, Inc. operates on a calendar year-end basis therefore the financial statements for the year ended December 31, 2009 are included in the City's current financial statements. Audited financial statements of Devou Properties, Inc. are available and may be obtained by contacting the City Manager.

Basis of Presentation Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements; however interfund services provided and used are not eliminated. Governmental activities, which are normally 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.

The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Material revenues susceptible to accrual are payroll license fees, insurance fees and grant revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following funds of the financial reporting entity:

- The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.
- The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.
- The capital projects funds are used to account for the accumulation of specific resources that are intended to be used for future capital improvements.
- The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following proprietary funds:

- The City has two internal service funds. One fund is for self-insurance for the City's health and dental insurance program for City employees. The second fund is for the self-insurance of the City's liability claims.

Additionally, the City reports two fiduciary funds. The two pension trust funds account for the activities of the Employees' Retirement Fund and the Police and Firemen's Pension Fund. These funds are for the accumulation of resources for pension benefit payments to qualified retired employees.

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government that are not accounted for in the other funds.
- The Community Development Block Grant Fund accounts for entitlements to the City under the provisions of Title 1 of the Housing and Development Act of 1974. Resources may only be used for activities which are directed toward developing urban communities and economic opportunities for persons of low and moderate income.
- The HOME Program Fund Accounts for resources provided by the U.S. Department of Housing and Urban Development under the HOME Program. Proceeds are used for deferred loans which are used to acquire, construct or rehabilitate housing for low income families.
- The Housing Voucher Fund accounts for funds provided to the City by the U.S. Department of Housing and Urban Development Section 8 rent subsidy program. Resources are used for the payment of rent subsidies to landlords on behalf of qualified tenants.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity:

Cash and Cash Equivalents

Cash and cash equivalents includes amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City.

The City is authorized by state statute to invest in:

- Obligations of the United States and of its Agencies and Instrumentalities
- Certificates of Deposits
- Bankers Acceptances
- Commercial Paper
- Bonds of Other State or Local Governments
- Mutual Funds

Investments

In accordance with Government Accounting Standards Board requirements, investments held at June 30, 2010 are recorded at fair value based on quoted market prices.

Types of investments allowable in the Pension Trust Funds are governed by the Pension Board of Trustees. All investments are stated in accordance with GASB requirements.

Property Tax Receivable

Property taxes are levied as of January 1 on property values assessed as of the same date. The taxes are billed on approximately August 15 and are due and payable on September 30. On October 1, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on October 1.

Notes Receivable

Notes receivable are carried at their unpaid principal balance.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2010 are recorded as prepaid items in both the government wide and fund statements. The consumption method is used in the fund statements.

Capital Assets

General capital assets are those assets not specifically related to activities reported in a propriety fund. These assets are reported in the governmental activities column of the government-wide statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure, such as streets, traffic signals and signs are capitalized, including infrastructure acquired prior to the implementation of the GASB Statement entitled “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments”. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are recorded at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. The City maintains a capitalization threshold of one thousand dollars with the exception of Infrastructure for which the threshold is twenty-five thousand dollars.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class is as follows:

Description	Governmental Activities Estimated Lives
Buildings	30 Years
Building Improvements	10 – 20 Years
Public Domain Infrastructure	25 – 35 Years
Vehicles	5 – 10 Years
Office Equipment	3 – 10 Years

Compensated Absences

Vested or accumulated vacation leave that has matured and is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Governmental Accounting Standards, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Long-Term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Unearned/Deferred Revenue

In the government-wide financial statements, unearned revenue represents the amount for which revenue recognition criteria have not been met. In subsequent periods, when the incurrence of qualifying expenditures has been made, the liability for the unearned revenue is removed and the revenue is recognized. In the governmental fund financial statements, revenues are deferred for amounts that are unearned or unavailable.

Fund Equity

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, government funds report reservations of governmental funds that represent amounts that are not available for appropriation such as prepaid expenses. Restricted net assets and restricted fund equity are reported when amounts are legally restricted by outside parties for use for a specific purpose. Unrestricted net assets and fund equity may be used at the City's discretion.

Revenues, Expenditures and Expenses:

Operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund are those that result from internal insurance premiums. It also includes all revenue and expenses related to capital and related financing, non-capital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities. In the fund financial statements, governmental funds are classified as follows:

Governmental Funds – by Character	Current – Further Classified by Function
	Debt Service
	Capital Outlay
Proprietary Fund – by Operating and Non-Operating	

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses related to the use of economic resources.

Interfund Transactions

Interfund services provided/used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/ expenses in the fund that is reimbursed.

Use of Estimates

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

Budgetary Information

Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles for all governmental funds and for proprietary funds.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- In accordance with City ordinance, prior to June 1, the City Manager submits to the Board of Commissioners, 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 for the upcoming year.
- A public meeting is conducted to obtain taxpayer comment.
- Prior to June 30, the budget is legally enacted through passage of an ordinance.
- The City Manager is required by Kentucky revised statutes to present a quarterly report to the Mayor and Board of Commissioners explaining any variance from the approved budget.
- Appropriations continue in effect until a new budget is adopted.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The Board of Commissioners may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the fund level. Any amendments to the budget that would change fund level totals must be approved by the Board of Commissioners. Encumbrance accounting is not employed by the City. During the year, the Board of Commissioners adopted two supplementary appropriation ordinances. Appropriations lapse at year end unless a new budget has not been adopted.

Excess of Expenditures over Appropriations

The following funds had expenditures in excess of legally adopted appropriations for the year ended June 30, 2010:

	Budget	Actual
General Fund	\$42,656,326	\$43,302,421
501 Main Street Operations	\$ 125,000	\$ 129,641

NOTE 3 – DEPOSITS

Cash and Cash Equivalents

The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times.

As of June 30, 2010, \$250,000 of the City's deposits are insured by the FDIC, and \$5,506,884 of the City's deposits are collateralized with securities held by the pledging institution's trust department but not in the City's name. As of June 30, 2010, the City did not have any deposits in excess of insured and/or collateralized amounts.

As of December 31, 2009, Devou Properties, Inc. (a component unit of the City) had \$1,918,004 in cash in excess of insured limits.

Investments

Investments are made by the City as an agent for the City Employee's Retirement Fund and the Police and Firemen's Pension Fund. The City maintains investment accounts with brokerage institutions which hold the investments registered in the City's name. As of June 30, 2010, all of the City's investments were covered by SIPC coverage or Excess SIPC coverage provided by the institution, and are therefore not subject to custodial credit risk.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will be able to recover the value of its cash, investments or collateral securities that are in the possession of an outside party. The City has no formal policy on custodial credit risk. As of June 30, 2010, the City had \$5,506,884 of deposits collateralized with securities held by the pledging institution's trust department but not in the City's name.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	Balance Beginning of Year	Additions	Retirements/ Deletions	Balance End of Year
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated				
Land	\$ 14,971,764	\$ -	\$ 350,183	\$ 14,621,581
Land Improvements	1,288,802	107,410	-	1,396,212
Construction in Progress	1,242,099	1,040,563	1,242,099	1,040,563
Total Capital Assets Not Being Depreciated	<u>17,502,665</u>	<u>1,147,973</u>	<u>1,592,282</u>	<u>17,058,356</u>
Depreciable Capital Assets				
Buildings	23,114,294	480,804	325,604	23,269,494
Building Improvements	8,477,032	320,167	-	8,797,199
Infrastructure	106,537,828	2,212,345	5,000	108,745,173
Machinery and Equipment	4,780,087	47,856	25,872	4,802,071
Vehicles	10,213,327	323,507	100,787	10,436,047
Total Depreciable Capital Assets	<u>153,122,568</u>	<u>3,384,679</u>	<u>457,263</u>	<u>156,049,984</u>
Less: Accumulated Depreciation				
Buildings	8,445,727	499,764	33,067	8,912,424
Building Improvements	7,902,877	280,189	-	8,183,066
Infrastructure	78,315,684	4,662,019	1,042	82,976,661
Machinery and Equipment	4,007,028	118,067	25,872	4,099,223
Vehicles	8,838,001	665,125	100,787	9,402,339
Total Accumulated Depreciation	<u>107,509,317</u>	<u>6,225,164</u>	<u>160,768</u>	<u>113,573,713</u>
Depreciable Capital Assets, Net	<u>45,613,251</u>	<u>(2,840,485)</u>	<u>296,495</u>	<u>42,476,271</u>
Total Governmental Activities Capital Assets - Net	<u>\$ 63,115,916</u>	<u>\$ (1,692,512)</u>	<u>\$ 1,888,777</u>	<u>\$ 59,534,627</u>
<u>Component Unit</u>				
Devou Properties, Inc.				
Depreciable Capital Assets Property and Equipment	\$ 17,184	\$ -	\$ -	\$ 17,184
Less: Accumulated Depreciation Property and Equipment	<u>12,736</u>	<u>1,082</u>	<u>-</u>	<u>13,818</u>
Total Component Unit Capital Assets - Net	<u>\$ 4,448</u>	<u>\$ (1,082)</u>	<u>\$ -</u>	<u>\$ 3,366</u>

*Depreciation was charged to functions as follows:

Governmental Activities Administration	\$ 694,534
Police	266,222
Fire	268,933
General Services	4,703,569
Parks and Recreation	<u>291,906</u>
Total Governmental Activities Depreciation Expense	<u>\$ 6,225,164</u>

NOTE 5 - INTERFUND ACTIVITY

Interfund receivables/payables represent short-term loans from one fund to another to cover cash overdrafts.

Much of the City's revenue is received in the general fund, then transferred to various other funds in order to fund immediate expenditures. Interfund receivables/payables were as follows at June 30, 2010:

Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	CDBG	\$ 8,409
	HOME Program	496
	Housing Voucher Program	4,688
	Police and Fire Incentive	83,032
	Investor Program	7,085
	Devou Park Master Plan	131,780
	Federal and State Grant	109,284
	501 Main Street Operations	(5,605)
	CAD System	327,134
	Renaissance Grant	47,393
	Home Consortium	54
	Neighborhood Stabilization Program	424,103
	Capital Improvement Fund	415,402
	2004 Pension Obligation	119,624
	Medical Self Insurance	219,554
	City Employees	177,765
	Police and Firemen's Pension	847,511
	<u>Total Due to General Fund</u>	<u>2,917,709</u>
CDBG	General	477,551
	Newport Steel	7,800
	Neighborhood Stabilization Program	16,495
		<u>Total Due to CDBG</u>
HOME Program	Home Consortium	68,576
Newport Steel	General	17,971
Devou Park Maintenance	General	1
City Hall Operations	General	46,544
Devou Park Master Plan	Devou Park Maintenance	18,968
501 Main Street Operations	General	267
Renaissance Grant	General	3,263
	Capital Improvement	29,855
		<u>Total Due to Renaissance Grant</u>
Working Capital Reserve	General	1,770,264
Property Acquisitions	Rental Rehab	7,085
Home Consortium Fund	HOME Program	17,985

(continued)

NOTE 5 - INTERFUND ACTIVITY (Continued)

Capital Improvement Fund	Renaissance Grant	250,878
	Liability Insurance	<u>200,000</u>
	Total Due to Capital Improvement	<u>450,878</u>
Medical and Dental Insurance	General	450,000

Interfund Transfers:

Transfers are typically used to move unrestricted revenues collected in one fund to finance various programs accounted for in another fund in accordance with budgetary authorizations and to fund debt service payments when they become due. Much of the City's revenue is received in the general fund, then transferred to various other funds in order to fund immediate expenditures.

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Arts District	\$ 13,704
	Devou Park Maintenance	10,000
	Renaissance Grant	3,263
	Working Capital Reserve	-
	Liability Self Insurance	200,000
	Capital Improvement	1,025,691
	501 Main Street Operating Fund	112,584
	Sewer Maintenance	3,638
	Debt Service	3,342,558
	Police and Fire Supp Pay	<u>788</u>
	Total Transfer From General Fund	4,712,226
CAD System	General	914,000
Sewer Maintenance	General	4
CDBG	General	317,000
Liability Self Insurance	Capital Improvement	-
Devou Park Maintenance	Devou Park Master Plan	18,967
Capital Improvement	Renaissance Grant	7,965
Investor Program	Property Acquisitions	7,085
Renaissance Grant	Capital Improvement	<u>250,876</u>
		<u>\$ 6,228,123</u>

NOTE 6 - SHORT TERM DEBT

On July 1, 2009 the city issued a Tax and Revenue Anticipation Note in the amount of \$3,000,000 for the purpose of providing working capital in advance of tax and revenue cash flows. This note carried a fixed interest rate of 1.84% and matured on June 30, 2010 at which time it was repaid out of the general fund.

During the year the City obtained a line of credit to facilitate real estate development. The total amount of credit available is \$500,000 and the debt charges interest at 5.0%. This line of credit matures August 1, 2010 and had an outstanding balance at June 30, 2010 of \$187,424.

During the year ended June 30, 2010, the following changes occurred in the City's short term debt:

<u>Debt Issue</u>	<u>Balance July 1, 2009</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2010</u>
TRAN	\$ -	\$ 3,000,000	\$ 3,000,000	\$ -
Line of Credit	198,239	-	10,815	187,424
	<u>\$ 198,239</u>	<u>\$ 3,000,000</u>	<u>\$ 3,010,815</u>	<u>\$ 187,424</u>

NOTE 7 - GENERAL LONG-TERM DEBT

Capital Lease Obligations

Capital lease obligations in the government-wide financial statements are reported as liabilities at lease inception. The related assets along with depreciation are reported at that time. Lease payments are reported as a reduction of the liability. For capital lease obligations in governmental funds, "Other Financing Sources – Lease Proceeds" and the expenditure are recorded at lease inception. Lease payments are recorded as expenditures.

The following capital lease obligations payable are payable from governmental fund revenues. The City has entered into various lease agreements as lessee for financing the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of the capital assets acquired through capital leases as of June 30, 2010.

	<u>Capital Assets</u>
Buildings	\$ 8,664,929
Building Improvements	534,589
Equipment	597,819
Land	6,952,070
Infrastructure	989,002
Vehicles	<u>2,208,054</u>
Total Cost	19,946,463
Accumulated Depreciation	<u>3,000,966</u>
Net Book Value	<u>\$ 16,945,497</u>

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2010.

Fiscal Years Ending June 30,	Amount
2011	\$ 1,882,683
2012	1,886,267
2013	1,892,482
2014	1,890,596
2015	1,893,544
2016-2020	8,042,143
2021-2025	5,008,165
2026-2030	<u>521,015</u>
Total Minimum Lease Payments	23,016,895
Less: Amount Representing Interest	<u>(5,353,544)</u>
Present Value of Future Minimum Lease Payments	17,663,351
Less Current Portion	<u>1,163,247</u>
Non Current Portion	<u>\$ 16,500,104</u>

The City is the lessor of office space located in the City building. These leases are on a year to year basis with cancelable terms. The City's investment in property on operating leases and property held for lease as of June 30, 2010 is as follows:

Cost	\$ 1,500,000
Carrying Amount	\$ 1,337,500
Current Depreciation	\$ 37,500

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

Mortgage Bonds and Notes Payable

The following schedule summarizes outstanding long-term mortgage bonds and notes payable at June 30, 2010.

	Purpose	Interest Rates	Maturity Dates June 30,	Amounts	
				Issued	Outstanding
Mortgage Bonds					
2003 Series	Refunding	2.00-4.50 %	2018	\$ 4,996,000	\$ 3,115,000
KY Infrastructure					
Auth.	Infrastructure	4.55	2014	460,327	113,031
HUD 108	Building Project	5.13	2015	1,000,000	397,000
2004 Series	Pension Funding	Variable	2030	14,410,000	12,750,000
2005 Series	Refunding	3.00-3.30	2013	7,405,000	3,395,000
KY Infrastructure					
Auth.	Rainwater Project	2.00	2030	1,040,563	1,040,563

Interest on the variable rate 2004 Series Pension Obligation Bonds is paid at the rate of interest determined by the Remarketing Agent, determined on a weekly basis. The rate was 0.650% June 30, 2010.

The bonds may be called prior to maturity at rates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the City at June 30, 2010 are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2011	\$ 2,472,819	\$ 818,175	\$ 3,290,994
2012	1,994,466	748,519	2,742,985
2013	2,085,429	672,442	2,757,871
2014	937,796	612,240	1,550,036
2015	957,069	570,574	1,527,643
2016 - 2020	4,200,420	2,234,641	6,435,061
2021 - 2025	3,622,901	1,434,987	5,057,888
2026 - 2030	4,539,694	530,245	5,069,939
Totals	\$ 20,810,594	\$ 7,621,823	\$ 28,432,417

NOTE 7 - GENERAL LONG-TERM DEBT (Continued)

Changes in Noncurrent Liabilities

During the year ended June 30, 2010, the following changes occurred in noncurrent liabilities:

Debt Issue	Balance July 1, 2009	Additions of New Debt	Repayments and Deceased	Balance June 30, 2010	Amounts Expected to be Paid in One Year
Mortgage Bonds and Notes					
1989 Series A	\$ 2,581	\$ -	\$ 2,581	\$ -	\$ -
2003 Refunding	3,438,000	-	323,000	3,115,000	340,000
HUD 108	464,000	-	67,000	397,000	67,000
KY Infrastructure Auth.	142,130	-	29,099	113,031	30,505
2005 Refunding Bonds	4,460,000	-	1,065,000	3,395,000	1,095,000
2004 Series A	13,115,000	-	365,000	12,750,000	385,000
KIA Rainwater Harvest	-	1,040,563	-	1,040,563	555,314
Total Mortgage Bonds and Notes	21,621,711	1,040,563	1,851,680	20,810,594	2,472,819
Capital Lease Obligations Infrastructure/Equipment	18,781,698	-	1,118,347	17,663,351	1,163,247
Compensated Absences	1,603,043	1,101,896	1,268,263	1,436,676	1,436,676
Total Noncurrent Liabilities	\$ 42,006,452	\$ 2,142,459	\$ 4,238,290	\$ 39,910,621	\$ 5,072,742

Compensated absences will be liquidated by the City's general fund. Compensated absences are required to be used within one year, therefore the balance is classified as current liability.

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

Interest Rate Swap

Objective of the Interest Rate Swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in May, 2005, the City entered into an interest rate swap in connection with its \$14.4 million 2004 Series variable-rate general obligation bonds. The intention of the swap was to effectively change the authority's variable interest rate on the bonds to a synthetic fixed rate of 4.56 percent. The interest rate swap is considered a hedging derivative instrument.

Terms. The bonds mature on December 1, 2029, and the related swap agreement matures on December 1, 2014. The swap's initial notional amount of \$14.4 million matched the \$14.4 million variable-rate bonds on an amortizing schedule. The swap was entered at the same time the bonds were issued (December, 2004). Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the City pays the counterparty a fixed payment of 4.56 percent and receives a variable payment based on the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable-rate coupons are based on a rate determined by the remarketing agent in accordance with the indenture.

Fair Value. The swap had a fair value of \$(1,389,949) as of June 30, 2010. The swap's fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase or decrease.

Credit Risk. As of June 30, 2010, the City was exposed to credit risk in the amount of the swap's fair value. The swap counterparty was rated AA by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2010.

Swap Payments and Associated Debt. For the year ended June 30, 2010, the City did not receive any payments from the agreement. Using rates as of June 30, 2010, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary

Fiscal Years Ending June 30,	Variable-Rate Bonds		Swap, Net	Total
	Principal	Interest		
2011	\$ 385,000	\$ 75,153	\$ 497,469	\$ 957,622
2012	405,000	79,056	475,554	959,610
2013	425,000	76,359	459,327	960,686
2014	445,000	73,531	442,319	960,850
2015	470,000	70,558	216,809	757,367
2016 - 2020	2,715,000	302,819	-	3,017,819
2021 - 2025	3,470,000	202,703	-	3,672,703
2026 - 2030	<u>4,435,000</u>	<u>74,896</u>	-	<u>4,509,896</u>
Totals	<u>\$ 12,750,000</u>	<u>\$ 955,075</u>	<u>\$ 2,091,478</u>	<u>\$ 15,796,553</u>

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)**Conduit Debt Obligations**

The City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, State, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2010, there were four series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$62.7 million.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks to loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has established a Liability Self Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Liability Self Insurance Fund provides coverage for all losses. The City purchases commercial insurance for fire and extended coverage losses.

All funds of the City participate in the program and make payments to the Liability Self Insurance Fund, however the payments are not based on actuarial estimates of the amounts needed to pay prior and current-year claims but are intended to establish a reserve for catastrophic losses. That reserve was \$1,211,479 at June 30, 2010 and is a designation of the Liability Self Insurance Fund retained earnings. The claims liability reported in the Fund at June 30, 2010, is based on the requirements of governmental accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount were:

<u>July 1, 2008</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2009</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2010</u>
\$ -	\$ 711,895	\$ 711,895	\$ -	\$ 917,918	\$ 97,095	\$ 820,823

The City has also established a Medical Self Insurance Fund. Employees may elect to participate in this program or certain other medical insurance programs offered by the City. Under this program the first \$125,000 of a participants medical claims are payable by the medical self insurance fund. The City purchases insurance for claims in excess of coverage provided by the fund. All funds of the City participate in the program and make payments to the medical self insurance fund based on historical estimates of the amounts needed to pay prior and current year claims. The claims liability of \$873,533 reported in the fund at June 30, 2010, is based upon the requirements of governmental accounting standards, as explained above. Changes in the fund's claims liability amount during the year ended June 30, 2010 were as follows:

<u>July 1, 2008</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2009</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2010</u>
\$ 1,062,031	\$ 5,048,819	\$ 4,823,170	\$ 1,287,680	\$ 5,816,422	\$ 6,230,569	\$ 873,533

There have been no significant reductions in insurance coverage from the prior year.

There have been no settlements in excess of insurance coverage in the past three years.

NOTE 9 – EMPLOYEE RETIREMENT PLAN

The City of Covington maintains two single employer, defined benefit pension plans: Employees' Pension Plan and Police and Firemen's Pension Plan. A separate, audited post-employment benefit plan report prepared in accordance with U.S. generally accepted accounting principles is not available for these plans.

Summary of Significant Accounting Policies

Basis of Accounting. The plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investment. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value. The plans issued separate financial statements which may be obtained by request from the City of Covington.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at the date of the latest actuarial valuation:

<u>Group</u>	<u>Employees' July 1, 2009</u>	<u>Police and Firemen's July 1, 2010</u>
Retirees and Beneficiaries Currently Receiving Benefits	57	90
Active Employees – Fully Vested	<u>2</u>	<u>-</u>
	<u>59</u>	<u>90</u>

Employees' Pension Plan

Plan Description. The Employees Pension Plan is a single employer defined benefit pension plan that covers substantially all non-public safety employees hired prior to April 1, 1997. The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living adjustments (COLA) are provided at the discretion of the Board of Trustees. Benefits are provided and may be amended by City ordinance.

Contributions. Plan members are required to contribute 8% of their annual covered salary. The City is required to contribute at an actuarially determined rate. Contributions requirements of the plan members and the City are established and may be amended by City ordinance. Administrative costs are financed through investment earnings.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Police and Firemen’s Pension Plan

Plan Description. The Police and Firemen’s Pension Plan is a single employer defined benefit pension plan that covers all retired police and firemen who were receiving benefits prior to August 1, 1989. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living adjustments (COLA) are provided at the discretion of the Board of Trustees. Benefits are provided under Kentucky Revised Statutes (KRS) 95.852 to 95.991.

Contributions. There are no active employees contributing to the plan. The City is required to contribute at an actuarially determined rate. Contribution requirements of the City are established under KRS 95.868. Administrative costs are financed through investment earnings.

Employer Contributions

Years Ended June 30,	Employees' Pension Plan			Police & Firemen’s Pension Plan		
	Annual Required Contribution	Contributions Made	Percentage Contributed	Annual Required Contribution	Contributions Made	Percentage Contributed
2010	\$ 304,163	\$ -	- %	\$ 396,747	\$ -	- %
2009	-	-	-	-	-	-
2008	-	-	-	-	-	-

During the year ended June 30, 2005, the City issued Pension Obligation Bonds for the purpose of funding both Pension Plans. As a result, the City has a net pension obligation asset on the government-wide statement of net assets. As of June 30, 2010, the Plan liabilities in both the Police & Firemen’s Pension Plan and the Employees’ Pension Plan exceeded the assets. Therefore, the City did have an unfunded accrued liability in the Police & Firemen’s Pension Plan or the Employees’ Pension Plan. The City is required by state statute to contribute impounding lot income and required contributions into the Police & Firemen’s Pension Plan each year.

Funded Status and Funding Progress

Actuarial Valuation Date July 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
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Employees’ Pension Plan

2009	\$ 3,867,919	\$ 5,955,714	\$ 2,087,795	65 %	\$ 105,381	1981 %
2007	6,650,730	6,605,645	(45,085)	101	114,311	N/A
2006	6,471,713	7,294,905	823,192	88	103,123	798

Police & Firemen’s Pension Plan

2010	\$ 9,116,577	\$ 11,465,252	\$ 2,348,675	80 %	\$ N/A	N/A %
2009	9,248,821	11,972,124	2,723,303	77	N/A	N/A
2007	16,057,288	15,913,455	(143,833)	101	N/A	N/A

An actuarial valuation report was not prepared as of July 1, 2008 or July 1, 2010 for the Employees’ Pension Plan and was not prepared as of July 1, 2008 for the Police & Firemen’s Pension Plan.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Annual Pension Cost and Net Pension Obligation

The City’s annual pension cost and net pension obligation to each plan for the current year were as follows:

	<u>Employees’ Pension Plan</u>	<u>Police & Firemen’s Pension Plan</u>
Annual Required Contribution (ARC)	\$ 304,163	\$ 396,747
Interest on Net Pension Obligation	(195,262)	(418,626)
Adjustment to ARC	<u>554,662</u>	<u>1,189,149</u>
Annual Pension Cost	663,562	1,167,270
Actual Contributions Made	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Pension Obligation	663,562	1,167,270
Net Pension Obligation (Asset) – Beginning of Year	<u>(2,603,497)</u>	<u>(5,581,684)</u>
Net Pension Obligation (Asset) – End of Year	<u>\$(1,939,935)</u>	<u>\$(4,414,414)</u>

Three-Year Trend Information

<u>Years Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Change In Net Pension Obligation</u>	<u>Balance of Net Pension Obligation (Asset)</u>
<u>Employees’ Pension Plan</u>				
06/30/10	\$ 663,563	- %	\$ 663,562	\$(1,939,935)
06/30/09	334,325	-	334,235	(2,603,497)
06/30/08	311,000	-	311,000	(2,937,822)
<u>Police & Firemen’s Pension Plan</u>				
06/30/10	\$ 1,167,270	- %	\$ 1,167,270	\$(4,414,414)
06/30/09	716,765	-	716,765	(5,581,684)
06/30/08	666,759	-	666,759	(6,298,449)

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

The information presented in this note was determined as part of the actuarial valuations at the dates indicated. The projected unit credit actuarial cost method is used in the valuations. Additional information as of the latest actuarial valuation follows:

	<u>Employees’ Pension Plan</u>	<u>Police & Firemen’s Pension Plan</u>
Valuation Date	July 1, 2009	July 1, 2010
Actuarial Cost Method	Entry Age	Unit Credit
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	10 Years	10 Years
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Investment Rate of Return *	7.5 %	7.5 %
Projected Salary Increases*	6 %	N/A
* Includes Inflation at	- %	- %
Cost-of-Living Adjustments	- %	- %

County Employees Retirement System (CERS)

City employees hired subsequent to April 1, 1977 who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

Non-Hazardous Contributions – For the year ended June 30, 2010, plan members were required to contribute 5% (for members before September 1, 2008) and 5% (for members on or after September 1, 2008) of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2010, participating employers contributed 16.16% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Hazardous Contributions – For the year ended June 30, 2010, plan members were required to contribute 8% (for members before September 1, 2008) and 9% (for members on or after September 1, 2008) of their annual creditable compensation. The City was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2010, participating employers contributed 32.97% of each employee’s creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

The required contribution and the actual percentage contributed for the City for the current and previous two years are as follows:

<u>Years</u>	<u>Required Contribution</u>	<u>Actual Percentage Contributed</u>
2010	\$ 5,788,087	100 %
2009	5,261,517	100
2008	5,617,523	100

Deferred Compensation Plan

Employees of the City of Covington may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, death, or unforeseeable emergency.

The deferred compensation plan is administered by an unrelated third-party organization. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts is held by the financial institution, until paid or made available to the employees or beneficiaries.

NOTE 10 – CONTINGENCIES

The City is a defendant in a lawsuit. The suit was filed by an individual for development rights and damages. The suit does not specify damages however; the City's counsel has advised that the case has potential for a large judgment, up to \$500,000. The City's counsel has advised that at this stage in the proceeding he cannot offer an opinion as to the probable outcome. The City believes the action is without merit and intends to vigorously defend its position.

The City has settled two lawsuits. The first settlement was in connection with an excessive force complaint. Rather than incur additional legal fees and other related costs, the City decided to settle this complaint. Under the terms of the settlement, the City has agreed to pay \$300,000. The second settlement was in connection with a dispute over scheduled overtime related to state incentive pay for firefighters. Rather than incur additional legal fees and other related costs, the City decided to settle this suit. Under the terms of the settlement, the City has agreed to pay \$520,823. Both of these settlement amounts were paid subsequent to June 30, 2010, and are accrued in the Liability Insurance Fund.

The City is also a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City is a party to a potential action to be filed by the firefighters union regarding calculation of overtime pay. The union is seeking to have its members compensated for overtime calculation over and above what was outlined in the collective bargaining agreement for the past several years. The parties have been in discussions regarding this matter, but no lawsuit has been filed at this point. The City's counsel has advised that at this stage in the proceeding he cannot offer an opinion as to the probable outcome, although an adverse outcome could potentially result in a multi-million dollar judgment against the City.

The City is a defendant in a lawsuit. The suit was filed by a company for alleged damage to real property. The suit does not specify damages, however, the City's counsel has advised that the case has potential for a large judgment, up to \$500,000. The City's counsel has advised that at this stage in the proceeding he cannot offer an opinion as to the probable outcome. The City believes the action is without merit and intends to vigorously defend its position.

The City is a defendant in a lawsuit. The suit was filed by a company for wrongful death. The suit does not specify damages, however, the City's counsel has advised that the case has potential for a large judgment, up to \$500,000. The City's counsel has advised that at this stage in the proceeding he cannot offer an opinion as to the probable outcome. The City believes the action is without merit and intends to vigorously defend its position.

A potential liability exists related to the City's medical self insurance fund for a health insurance claim that the City's stop loss insurance carrier has denied. The City and its third party administrator are challenging this determination and are contemplating filing suit against the insurance carrier for payment of the claim. In the event the City is unsuccessful in this challenge, the claim, totaling \$1.8 million, will be paid by the City's medical self insurance fund. At this time the City cannot offer an opinion as to the probably outcome.

NOTE 11 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2010, the date of the most recent statement of net assets, have been evaluated for possible adjustment to the financial statements or disclosure is November 19, 2010 which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Note: The City's budget is prepared using the modified accrual basis of accounting, which is the GAAP basis used to report governmental funds.

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Real Property	\$ 5,877,310	\$ 5,877,310	\$ 5,901,967	\$ 24,657
Personal Property	600,000	600,000	557,999	(42,001)
Bank Deposit	62,400	62,400	60,603	(1,797)
Franchise	2,337,485	2,337,485	2,085,706	(251,779)
Insurance Premium	4,900,000	4,900,000	5,588,067	688,067
Licenses and Permits				
Payroll License Fees	24,137,829	24,137,829	22,850,229	(1,287,600)
Net Profits License Fees	2,200,000	2,200,000	2,285,504	85,504
Night Club Permits	135,000	135,000	139,166	4,166
Liquor and Beer Licenses	150,000	150,000	143,968	(6,032)
Building and Zoning	-	-	5,720	5,720
Dog Licenses	8,000	8,000	5,189	(2,811)
Intergovernmental	525,000	525,000	612,863	87,863
Fines and Forfeitures	650,000	650,000	746,322	96,322
Charges for Services				
Waste Fees	2,085,954	2,085,954	1,918,838	(167,116)
Parking	1,140,000	1,140,000	1,179,276	39,276
Squad Runs	1,281,000	1,281,000	1,282,105	1,105
Rental Property	294,000	294,000	450,153	156,153
Other	137,000	137,000	106,706	(30,294)
Interest	10,000	10,000	1,353	(8,647)
Miscellaneous	385,800	385,800	422,738	36,938
Total Revenues	<u>46,916,778</u>	<u>46,916,778</u>	<u>46,344,472</u>	<u>(572,306)</u>
Expenditures				
General Government				
Administration Department				
Payroll	678,605	678,605	800,685	(122,080)
Employee Benefits	346,477	346,477	364,925	(18,448)
Contractual Services	200,415	200,415	225,037	(24,622)
Materials and Supplies	45,950	45,950	44,449	1,501
Miscellaneous	-	-	-	-
Total Administration Department	<u>1,271,447</u>	<u>1,271,447</u>	<u>1,435,096</u>	<u>(163,649)</u>
Legal Department				
Payroll	231,909	231,909	227,462	4,447
Employee Benefits	109,910	109,910	111,648	(1,738)
Contractual Services	55,436	55,436	44,170	11,266
Materials and Supplies	18,100	18,100	11,811	6,289
Miscellaneous	-	-	-	-
Total Legal Department	<u>415,355</u>	<u>415,355</u>	<u>395,091</u>	<u>20,264</u>
Finance Department				
Payroll	546,454	546,454	514,411	32,043
Employee Benefits	285,021	285,021	266,346	18,675
Contractual Services	358,570	358,570	319,977	38,593
Materials and Supplies	71,150	71,150	24,948	46,202
Miscellaneous	-	-	-	-
Total Finance Department	<u>1,261,195</u>	<u>1,261,195</u>	<u>1,125,682</u>	<u>135,513</u>
Total General Government	<u>2,947,997</u>	<u>2,947,997</u>	<u>2,955,869</u>	<u>(7,872)</u>

(Continued)

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2010
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Police				
Payroll	\$ 8,153,096	\$ 8,153,096	\$ 8,333,728	\$ (180,632)
Employee Benefits	5,173,789	5,173,789	5,343,698	(169,909)
Contractual Services	812,554	812,554	925,039	(112,485)
Materials and Supplies	461,730	461,730	408,323	53,407
Miscellaneous	-	-	-	-
Total Police	<u>14,601,169</u>	<u>14,601,169</u>	<u>15,010,788</u>	<u>(409,619)</u>
Fire				
Payroll	7,382,422	7,382,422	7,743,417	(360,995)
Employee Benefits	4,707,715	4,707,715	4,964,138	(256,423)
Contractual Services	357,100	357,100	332,643	24,457
Materials and Supplies	354,240	354,240	285,928	68,312
Miscellaneous	-	-	-	-
Total Fire	<u>12,801,477</u>	<u>12,801,477</u>	<u>13,326,126</u>	<u>(524,649)</u>
Public Improvements				
Payroll	2,749,009	2,749,009	2,810,522	(61,513)
Employee Benefits	1,633,943	1,633,943	1,585,973	47,970
Contractual Services	1,175,095	1,175,095	1,213,087	(37,992)
Materials and Supplies	970,880	970,880	905,323	65,557
Miscellaneous	-	-	-	-
Total General Services	<u>6,528,927</u>	<u>6,528,927</u>	<u>6,514,905</u>	<u>14,022</u>
Recreation				
Payroll	322,888	322,888	271,012	51,876
Employee Benefits	119,329	119,329	93,515	25,814
Contractual Services	133,500	133,500	98,638	34,862
Materials and Supplies	83,500	83,500	41,144	42,356
Miscellaneous	-	-	-	-
Total Recreation	<u>659,217</u>	<u>659,217</u>	<u>504,309</u>	<u>154,908</u>
Community Development				
Payroll	564,406	564,406	574,843	(10,437)
Employee Benefits	323,843	323,843	287,034	36,809
Contractual Services	2,067,678	2,067,678	2,157,531	(89,853)
Materials and Supplies	26,200	26,200	20,233	5,967
Miscellaneous	-	-	-	-
Total Code Enforcement	<u>2,982,127</u>	<u>2,982,127</u>	<u>3,039,641</u>	<u>(57,514)</u>

(Continued)

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2010
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Economic Development				
Payroll	\$ 275,508	\$ 275,508	\$ 224,753	\$ 50,755
Employee Benefits	131,080	131,080	106,199	24,881
Contractual Services	128,981	128,981	166,599	(37,618)
Materials and Supplies	11,150	11,150	7,696	3,454
Miscellaneous	-	-	-	-
Total Economic Development	<u>546,719</u>	<u>546,719</u>	<u>505,247</u>	<u>41,472</u>
Total Code Enforcement and Economic Development	<u>3,528,846</u>	<u>3,528,846</u>	<u>3,544,888</u>	<u>(16,042)</u>
Parking Garages				
Contractual Services	742,460	742,460	728,880	13,580
Materials and Supplies	10,700	10,700	3,482	7,218
Total Parking Garages	<u>753,160</u>	<u>753,160</u>	<u>732,362</u>	<u>20,798</u>
Capital Outlay				
General Government	-	-	-	-
Police	-	-	-	-
Fire	-	-	-	-
General Services	-	-	-	-
Housing	-	-	-	-
Recreation	-	-	-	-
Total Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Service				
Principal	499,652	499,652	503,716	(4,064)
Interest	335,881	335,881	209,458	126,423
Total Debt Service	<u>835,533</u>	<u>835,533</u>	<u>713,174</u>	<u>122,359</u>
Total Expenditures	<u>42,656,326</u>	<u>42,656,326</u>	<u>43,302,421</u>	<u>(646,095)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>4,260,452</u>	<u>4,260,452</u>	<u>3,042,051</u>	<u>(1,218,401)</u>
Other Financing Sources (Uses)				
Transfers In	956,000	956,000	1,231,004	275,004
Proceeds on Sale of Capital Assets	-	-	9,700	-
Transfers Out	(5,247,200)	(5,247,200)	(4,712,226)	534,974
Total Other Financing Sources (Uses)	<u>(4,291,200)</u>	<u>(4,291,200)</u>	<u>(3,471,522)</u>	<u>809,978</u>
Net Change in Fund Balance	(30,748)	(30,748)	(429,471)	(408,423)
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>771,969</u>	<u>771,969</u>
Fund Balance June 30, 2010	<u>\$ (30,748)</u>	<u>\$ (30,748)</u>	<u>\$ 342,498</u>	<u>\$ 363,546</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
COMMUNITY DEVELOPMENT BLOCK GRANT
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 2,229,659	\$ 3,447,554	\$ 2,308,319	\$ (1,139,235)
Miscellaneous	357,741	357,741	344,753	(12,988)
Total Revenues	<u>2,587,400</u>	<u>3,805,295</u>	<u>2,653,072</u>	<u>(1,152,223)</u>
Expenditures				
Community Development	1,084,159	1,132,588	1,037,835	94,753
Debt Service				
Principal	67,000	67,000	67,000	-
Interest and Other Charges	25,741	25,741	25,740	1
Capital Outlay	<u>1,072,500</u>	<u>2,241,966</u>	<u>1,573,497</u>	<u>668,469</u>
Total Expenditures	<u>2,249,400</u>	<u>3,467,295</u>	<u>2,704,072</u>	<u>763,223</u>
Excess (Deficit) of Revenues Over Expenditures	338,000	338,000	(51,000)	(389,000)
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	-	-	368,000	368,000
Transfers Out	<u>(338,000)</u>	<u>(338,000)</u>	<u>(317,000)</u>	<u>21,000</u>
Total Other Financing Sources (Uses)	(338,000)	(338,000)	51,000	389,000
Net Change in Fund Balance	-	-	-	-
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
HOME PROGRAM
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 537,945	\$ 795,212	\$ 515,173	\$ (280,039)
Investment Earnings	-	-	60	60
Miscellaneous	<u>210,000</u>	<u>210,000</u>	<u>147,428</u>	<u>(62,572)</u>
Total Revenues	<u>747,945</u>	<u>1,005,212</u>	<u>662,661</u>	<u>(342,551)</u>
Expenditures				
Community Development	682,669	779,936	638,533	141,403
Capital Outlay	<u>65,276</u>	<u>225,276</u>	<u>-</u>	<u>225,276</u>
Total Expenditures	<u>747,945</u>	<u>1,005,212</u>	<u>638,533</u>	<u>366,679</u>
Excess (Deficit) of Revenues Over Expenditures				
	-	-	24,128	24,128
Fund Balance July 1, 2009				
	<u>-</u>	<u>-</u>	<u>176,775</u>	<u>176,775</u>
Fund Balance June 30, 2010				
	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 200,903</u></u>	<u><u>\$ 200,903</u></u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
HOUSING VOUCHER PROGRAM
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 6,086,652	\$ 6,599,573	\$ 5,526,721	\$ (1,072,852)
Investment Earnings	30,000	30,000	577	(29,423)
Miscellaneous	<u>-</u>	<u>-</u>	<u>5,599</u>	<u>5,599</u>
Total Revenues	6,116,652	6,629,573	5,532,897	(1,096,676)
Expenditures				
Community Development	<u>6,127,184</u>	<u>6,629,573</u>	<u>6,223,719</u>	<u>405,854</u>
Excess (Deficit) of Revenues Over Expenditures	(10,532)	-	(690,822)	(690,822)
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>1,558,841</u>	<u>1,558,841</u>
Fund Balance June 30, 2010	<u>\$ (10,532)</u>	<u>\$ -</u>	<u>\$ 868,019</u>	<u>\$ 868,019</u>

OTHER SUPPLEMENTARY INFORMATION

**COMBINING FINANCIAL STATEMENTS
NON-MAJOR GOVERNMENTAL FUNDS**

**CITY OF COVINGTON, KENTUCKY
NON-MAJOR GOVERNMENTAL FUNDS**

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Police and Fire Incentive Pay

This fund was established to account for entitlements received under the State of Kentucky's Policemen and Firemen's Supplemental Pay Programs.

Newport Steel UDAG

This fund is used to account for the proceeds from the repayment of a U.S. Housing and Urban Development loan to Newport Steel, Inc. The proceeds may be used for any purpose for which the Community Development Block Grant Program income may be utilized.

Devou Park Maintenance

This fund was established by Commissioners' ordinance in 1973 to account for the maintenance of roadways and streets within Devou Park.

Investor Program

This fund is used to account for resources provided by loan repayments made by loan recipients who had previously received loans from the U.S. Department of Housing and Urban Development. Those funds are then made available for rehabilitation loans to qualified property owners.

City Hall Operations

This fund was established to account for revenues and expenditures related to the City building.

Devou Park Master Plan

This fund is used to account for revenues and expenditures of funds allocated for use in Devou Park, from proceeds of the operation of the Drees Pavilion.

Federal and State Grant Funds

This fund was established to account for the revenues and expenditures related to grants awarded by federal and state agencies.

Arts District

This fund was established to provide loans for specified projects within the Arts District in the City.

501 Main Street Operations

This fund was established to account for revenues and expenditures related to a City owned building at 501 Main Street.

Police Forfeiture

This fund was established to account for the resources provided for by police forfeitures.

CAD System

This fund was established to account for revenues and expenditures related to the installation of a computer assisted dispatch system, and the subsequent debt service payments for the related capital lease.

Renaissance Grant Fund

This fund was established to account for revenues and expenses related to renaissance grants received by the City.

Working Capital Reserve

This fund was established to accumulate funds to be used for future working capital needs of the City.

**CITY OF COVINGTON, KENTUCKY
NON MAJOR GOVERNMENTAL FUNDS
(Continued)**

Property Acquisitions

This fund was established to account for significant funds received and investments made by the City for real estate in connection with relocating Section 8 tenants.

Home Consortium Fund

This fund was established to administer a HOME Program for a consortium of non entitlement cities in Northern Kentucky, including Newport, Bellevue, Dayton, Ludlow and Bromley. HOME funds are used to provide assistance to persons to purchase a home, owner-occupied rehab programs, and housing development activities with Community Housing Development organizations.

Homeless Prevention Fund

This fund is used to administer U.S. Department of Housing and Urban Development funds to be used for foreclosure remediation.

Neighborhood Stabilization Program

This fund was established to administer a U.S. Department of Housing and Urban Development grant to develop low income rental units and owner occupied homes purchased out of foreclosure.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the accumulation of specific resources that are intended to be used for future capital improvements.

Capital Improvement Fund

This fund was established to account for significant funds received by the City that will be used for future capital projects.

DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources.

KLC Series 2002

This fund was established to account for the proceeds of a BAN to finance certain projects of the City. BAN proceeds were replaced by capital lease proceeds in the prior year to finish the projects.

2004 Pension Obligation Bonds

The proceeds of this issue were used to fund the Employees' Retirement Fund and the Police and Fire Retirement Fund.

2005 Refunding Bonds

The proceeds of this issue were used to refund the 1995 First Mortgage Bonds.

Sewer Maintenance Fees

This fund was established to account for resources provided by the collection of sewer maintenance fees. These fees are to be used to retire the debt owed to the Sanitation District.

**CITY OF COVINGTON, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2010**

	Special Revenue Funds										
	Police and Fire Incentive	Newport Steel UDAG	Devou Park Maintenance	Investor Program	City Hall Operations	Devou Park Master Plan	Federal and State Grant Fund	Arts District	501 Main Street Operations	Police Forfeiture	CAD System
Assets											
Cash and Cash Equivalents	\$ 44,357	\$ 285,667	\$ 41,092	\$ 503,242	\$ 5,853	\$ 5,356	\$ -	\$ -	\$ -	\$ 223,253	\$ 420,991
Receivables											
Taxes	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-
Notes	-	1,554,587	-	795,357	-	-	-	-	-	-	-
Accounts	38,675	-	23,584	-	-	131,255	213,994	-	-	-	-
Due from Other Funds	-	17,971	1	-	46,544	18,968	-	-	267	-	-
Prepays	-	-	-	-	-	-	-	-	-	-	-
Total Assets	\$ 83,032	\$ 1,858,225	\$ 64,677	\$ 1,298,599	\$ 52,397	\$ 155,579	\$ 213,994	\$ -	\$ 267	\$ 223,253	\$ 420,991
Liabilities and Fund Balances											
Liabilities											
Accounts Payable	\$ -	\$ -	\$ 1,278	\$ 7,451	\$ 9,471	\$ 23,799	\$ 31,591	\$ -	\$ 5,872	\$ -	\$ -
Accrued Liabilities	-	-	-	-	-	-	-	-	-	-	-
Due to Other Funds	83,032	7,800	18,968	7,085	-	131,780	109,284	-	(5,605)	-	327,134
Deferred Revenue	-	1,553,941	21,005	795,357	-	-	73,052	-	-	-	-
Total Liabilities	83,032	1,561,741	41,251	809,893	9,471	155,579	213,927	-	267	-	327,134
Fund Balances											
Reserved for											
Prepays	-	-	-	-	-	-	-	-	-	-	-
Unreserved											
Undesignated, Reported In											
Special Revenue Funds	-	296,484	23,426	488,706	42,926	-	67	-	-	223,253	93,857
Capital Projects Funds	-	-	-	-	-	-	-	-	-	-	-
Debt Service Funds	-	-	-	-	-	-	-	-	-	-	-
Total Fund Balances	-	296,484	23,426	488,706	42,926	-	67	-	-	223,253	93,857
Total Liabilities and Fund Balances	\$ 83,032	\$ 1,858,225	\$ 64,677	\$ 1,298,599	\$ 52,397	\$ 155,579	\$ 213,994	\$ -	\$ 267	\$ 223,253	\$ 420,991

**CITY OF COVINGTON, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2010
(Continued)**

	Special Revenue Funds						Capital Projects	Debt Service Funds				Non-Major Governmental Funds
	Renaissance Grant Fund	Working Capital Reserve	Property Acquisitions	Home Consortium Fund	Homeless Prevention Fund	Neighborhood Stabilization Program	Capital Improvement Fund	KLC Series 2002	2004 Pension Obligation Bonds	2005 Refunding Bonds	Sewer Maintenance Fees	
Assets												
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 196,331	\$ 10,606	\$ -	\$ 1,736,748
Receivables												
Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	250,878	-	-	89,800	-	494,066	-	-	-	-	-	834,744
Notes	-	-	-	444,571	-	-	-	-	-	-	-	2,794,515
Accounts	43,439	-	-	-	-	-	419,647	-	3,825	-	-	874,419
Due from Other Funds	33,118	1,770,264	7,085	17,985	-	-	450,878	-	-	-	-	2,363,081
Prepays	-	-	-	-	-	-	239,664	-	-	-	-	239,664
Total Assets	<u>\$ 327,435</u>	<u>\$ 1,770,264</u>	<u>\$ 7,085</u>	<u>\$ 552,356</u>	<u>\$ -</u>	<u>\$ 494,066</u>	<u>\$ 1,110,189</u>	<u>\$ -</u>	<u>\$ 200,156</u>	<u>\$ 10,606</u>	<u>\$ -</u>	<u>\$ 8,843,171</u>
Liabilities and Fund Balances												
Liabilities												
Accounts Payable	\$ -	\$ -	\$ -	\$ 39,155	\$ -	\$ 53,467	\$ 180,921	\$ -	\$ -	\$ -	\$ -	\$ 353,005
Accrued Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Due to Other Funds	298,271	-	7,085	68,630	-	440,598	445,257	-	119,624	-	-	2,058,943
Deferred Revenue	29,164	-	-	444,571	-	-	437,331	-	-	-	-	3,354,421
Total Liabilities	<u>327,435</u>	<u>-</u>	<u>7,085</u>	<u>552,356</u>	<u>-</u>	<u>494,065</u>	<u>1,063,509</u>	<u>-</u>	<u>119,624</u>	<u>-</u>	<u>-</u>	<u>5,766,369</u>
Fund Balances												
Reserved for												
Prepays	-	-	-	-	-	-	59,664	-	-	-	-	59,664
Unreserved												
Undesignated, Reported In												
Special Revenue Funds	-	1,770,264	-	-	-	1	-	-	-	-	-	2,938,984
Capital Projects Funds	-	-	-	-	-	-	(12,984)	-	-	-	-	(12,984)
Debt Service Funds	-	-	-	-	-	-	-	80,532	10,606	-	-	91,138
Total Fund Balances	<u>-</u>	<u>1,770,264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>46,680</u>	<u>-</u>	<u>80,532</u>	<u>10,606</u>	<u>-</u>	<u>3,076,802</u>
Total Liabilities and Fund Balances	<u>\$ 327,435</u>	<u>\$ 1,770,264</u>	<u>\$ 7,085</u>	<u>\$ 552,356</u>	<u>\$ -</u>	<u>\$ 494,066</u>	<u>\$ 1,110,189</u>	<u>\$ -</u>	<u>\$ 200,156</u>	<u>\$ 10,606</u>	<u>\$ -</u>	<u>\$ 8,843,171</u>

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	Special Revenue Funds										
	Police and Fire Incentive	Newport Steel UDAG	Devou Park Maintenance	Investor Program	City Hall Operations	Devou Park Master Plan	Federal and State Grant Fund	Arts District	501 Main Street Operations	Police Forfeiture	CAD System
Revenues											
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 792,712
Licenses and Permits	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	947,012	-	-	-	-	-	-	-	-	-	-
Charges for Services	-	-	-	-	262,124	-	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	-	-
Investment Earnings	-	21,789	43	258	3	-	-	-	-	152	174
Miscellaneous	-	132,750	23,584	28,314	-	131,255	-	-	-	3,200	-
Total Revenues	<u>947,012</u>	<u>154,539</u>	<u>23,627</u>	<u>28,572</u>	<u>262,127</u>	<u>131,255</u>	<u>312,165</u>	<u>-</u>	<u>17,057</u>	<u>82,167</u>	<u>792,886</u>
Expenditures											
Current											
General Government	-	-	42,196	-	206,418	75,141	312,165	-	14,765	-	-
Police	463,419	-	-	-	-	-	-	-	-	119,287	-
Fire	486,808	-	-	-	-	-	-	-	-	-	-
Public Improvements	-	-	-	-	-	-	-	-	-	-	-
Recreation	-	-	-	-	-	-	-	-	-	-	-
Community Development	-	32,790	-	104,602	-	-	-	-	-	-	-
Parking Garage	-	-	-	-	-	-	-	-	-	-	-
Debt Service											
Principal	-	-	-	-	-	-	-	20,000	46,994	-	-
Interest and Other Charges	-	-	-	-	-	-	-	6,689	67,882	-	-
Capital Outlay	-	-	-	-	16,412	75,081	-	152,065	-	26,195	-
Total Expenditures	<u>950,227</u>	<u>32,790</u>	<u>42,196</u>	<u>104,602</u>	<u>222,830</u>	<u>150,222</u>	<u>312,165</u>	<u>178,754</u>	<u>129,641</u>	<u>145,482</u>	<u>-</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(3,215)</u>	<u>121,749</u>	<u>(18,569)</u>	<u>(76,030)</u>	<u>39,297</u>	<u>(18,967)</u>	<u>-</u>	<u>(178,754)</u>	<u>(112,584)</u>	<u>(63,315)</u>	<u>792,886</u>
Other Financing Sources (Uses)											
Transfers In	788	-	10,000	-	-	18,967	-	13,704	112,584	-	-
Proceeds from Sale of Capital Assets	-	-	-	-	-	-	-	155,040	-	-	-
Proceeds from Issuance of Debt	-	-	-	-	-	-	-	-	-	-	-
Transfers Out	-	-	(18,967)	(7,085)	-	-	-	-	-	-	(914,000)
Total Other Financing Sources (Uses)	<u>788</u>	<u>-</u>	<u>(8,967)</u>	<u>(7,085)</u>	<u>-</u>	<u>18,967</u>	<u>-</u>	<u>168,744</u>	<u>112,584</u>	<u>-</u>	<u>(914,000)</u>
Net Change in Fund Balances	<u>(2,427)</u>	<u>121,749</u>	<u>(27,536)</u>	<u>(83,115)</u>	<u>39,297</u>	<u>-</u>	<u>-</u>	<u>(10,010)</u>	<u>-</u>	<u>(63,315)</u>	<u>(121,114)</u>
Fund Balance July 1, 2009	<u>2,427</u>	<u>174,735</u>	<u>50,962</u>	<u>571,821</u>	<u>3,629</u>	<u>-</u>	<u>67</u>	<u>10,010</u>	<u>-</u>	<u>286,568</u>	<u>214,971</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ 296,484</u>	<u>\$ 23,426</u>	<u>\$ 488,706</u>	<u>\$ 42,926</u>	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 223,253</u>	<u>\$ 93,857</u>

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2010
(Continued)

	Special Revenue Funds						Capital Projects	Debt Service Funds				Non-Major Governmental Funds
	Renaissance Grant Fund	Working Capital Reserve	Property Acquisitions	Home Consortium Fund	Homeless Prevention Fund	Neighborhood Stabilization Program	Capital Improvement Fund	2004 KLC Series 2002	Pension Obligation Bonds	2005 Refunding Bonds	Sewer Maintenance Fees	
Revenues												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 792,712
Licenses and Permits	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	306,412	-	-	326,093	63,474	494,066	675,534	-	-	-	-	3,203,571
Charges for Services	-	-	10,814	-	-	-	-	-	-	-	-	289,995
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	-	-	-
Investment Earnings	-	-	-	-	-	-	-	-	-	-	30	22,449
Miscellaneous	-	-	-	-	-	-	111,732	-	-	-	-	430,835
Total Revenues	306,412	-	10,814	326,093	63,474	494,066	787,266	-	-	-	30	4,739,562
Expenditures												
Current												
General Government	-	-	-	-	-	-	-	-	83,100	-	96,060	829,845
Police	-	-	-	-	-	-	-	-	-	-	-	582,706
Fire	-	-	-	-	-	-	-	-	-	-	-	486,808
Public Improvements	-	-	-	-	-	-	-	-	-	-	-	-
Recreation	-	-	-	-	-	-	-	-	-	-	-	-
Community Development	26,940	-	-	326,093	63,474	176,923	-	-	-	-	-	730,822
Parking Garage	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service												
Principal	-	-	10,814	-	-	-	342,473	559,844	365,000	1,065,000	-	2,410,125
Interest and Other Charges	-	-	7,095	-	-	-	83,218	440,779	714,833	124,160	-	1,444,656
Capital Outlay	39,823	-	-	-	-	317,142	2,782,313	-	-	-	-	3,409,031
Total Expenditures	66,763	-	17,909	326,093	63,474	494,065	3,208,004	1,000,623	1,162,933	1,189,160	96,060	9,893,993
Excess (Deficit) of Revenues Over Expenditures	239,649	-	(7,095)	-	-	1	(2,420,738)	(1,000,623)	(1,162,933)	(1,189,160)	(96,030)	(5,154,431)
Other Financing Sources (Uses)												
Transfers In	11,227	-	7,085	-	-	-	1,276,569	1,000,623	1,152,774	1,189,160	3,638	4,797,119
Proceeds from Sale of Capital Assets	-	-	-	-	-	-	-	-	-	-	-	155,040
Proceeds from Issuance of Debt	-	-	-	-	-	-	1,040,563	-	-	-	-	1,040,563
Transfers Out	(250,876)	-	-	-	-	-	(7,965)	-	-	-	(4)	(1,198,897)
Total Other Financing Sources (Uses)	(239,649)	-	7,085	-	-	-	2,309,167	1,000,623	1,152,774	1,189,160	3,634	4,793,825
Net Change in Fund Balances	-	-	(10)	-	-	1	(111,571)	-	(10,159)	-	(92,396)	(360,606)
Fund Balance July 1, 2009	-	1,770,264	10	-	-	-	158,251	-	90,691	10,606	92,396	3,437,408
Fund Balance June 30, 2010	\$ -	\$ 1,770,264	\$ -	\$ -	\$ -	\$ 1	\$ 46,680	\$ -	\$ 80,532	\$ 10,606	\$ -	\$ 3,076,802

INDIVIDUAL FUND SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
POLICE AND FIRE INCENTIVE
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 967,000	\$ 967,000	\$ 947,012	\$ (19,988)
Expenditures				
Police	476,500	476,500	463,419	13,081
Fire	490,500	490,500	486,808	3,692
Total Expenditures	967,000	967,000	950,227	16,773
Excess (Deficit) of Revenues Over Expenditures	-	-	(3,215)	(3,215)
Other Financing Sources (Uses)				
Transfers In	10,000	10,000	788	(9,212)
Net Change in Fund Balance	10,000	10,000	(2,427)	(12,427)
Fund Balance July 1, 2009	-	-	2,427	2,427
Fund Balance June 30, 2010	\$ 10,000	\$ 10,000	\$ -	\$ (10,000)

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
NEWPORT STEEL UDAG
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment Earnings	\$ 30,000	\$ 30,000	\$ 21,789	\$ (8,211)
Miscellaneous	<u>160,000</u>	<u>160,000</u>	<u>132,750</u>	<u>(27,250)</u>
Total Revenues	<u>190,000</u>	<u>190,000</u>	<u>154,539</u>	<u>(35,461)</u>
Expenditures				
Community Development	<u>250,000</u>	<u>250,000</u>	<u>32,790</u>	<u>217,210</u>
Excess (Deficit) of Revenues Over Expenditures	(60,000)	(60,000)	121,749	181,749
Fund Balance July 1, 2009	<u>60,000</u>	<u>60,000</u>	<u>174,735</u>	<u>114,735</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296,484</u>	<u>\$ 296,484</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
DEVOU PARK MAINTENANCE
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment Earnings	\$ -	\$ -	\$ 43	\$ 43
Miscellaneous	931,517	90,000	23,584	(66,416)
Total Revenues	<u>931,517</u>	<u>90,000</u>	<u>23,627</u>	<u>(66,373)</u>
Expenditures				
General Government	110,000	75,000	42,196	32,804
Capital Outlay	831,517	-	-	-
Total Expenditures	<u>941,517</u>	<u>75,000</u>	<u>42,196</u>	<u>32,804</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(10,000)</u>	<u>15,000</u>	<u>(18,569)</u>	<u>(33,569)</u>
Other Financing Sources (Uses)				
Transfers In	10,000	10,000	10,000	-
Transfers Out	-	(25,000)	(18,967)	6,033
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>(15,000)</u>	<u>(8,967)</u>	<u>6,033</u>
Net Change in Fund Balance	-	-	(27,536)	(27,536)
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>50,962</u>	<u>50,962</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,426</u>	<u>\$ 23,426</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
INVESTOR PROGRAM
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment Earnings	\$ 5,000	\$ 5,000	\$ 258	\$ (4,742)
Miscellaneous	<u>25,000</u>	<u>25,000</u>	<u>28,314</u>	<u>3,314</u>
Total Revenues	<u>30,000</u>	<u>30,000</u>	<u>28,572</u>	<u>(1,428)</u>
Expenditures				
Community Development	<u>375,000</u>	<u>350,000</u>	<u>104,602</u>	<u>245,398</u>
Excess (Deficit) of Revenues Over Expenditures	(345,000)	(320,000)	(76,030)	243,970
Other Financing Sources (Uses)				
Transfers Out	<u>(25,000)</u>	<u>(25,000)</u>	<u>(7,085)</u>	<u>17,915</u>
Net Change in Fund Balance	(370,000)	(345,000)	(83,115)	261,885
Fund Balance July 1, 2009	<u>370,000</u>	<u>345,000</u>	<u>571,821</u>	<u>226,821</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 488,706</u>	<u>\$ 488,706</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CITY HALL OPERATIONS
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for Services	\$ 270,933	\$ 270,933	\$ 262,124	\$ (8,809)
Investment Earnings	-	-	3	3
Total Revenues	<u>270,933</u>	<u>270,933</u>	<u>262,127</u>	<u>(8,806)</u>
Expenditures				
General Government	306,857	306,857	206,418	100,439
Capital Outlay	<u>16,495</u>	<u>16,495</u>	<u>16,412</u>	<u>83</u>
Total Expenditures	<u>323,352</u>	<u>323,352</u>	<u>222,830</u>	<u>100,522</u>
Excess (Deficit) of Revenues Over Expenditures	(52,419)	(52,419)	39,297	91,716
Other Financing Sources (Uses)				
Transfers In	<u>52,419</u>	<u>52,419</u>	<u>-</u>	<u>(52,419)</u>
Net Change in Fund Balance	-	-	39,297	39,297
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>3,629</u>	<u>3,629</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,926</u>	<u>\$ 42,926</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
DEVOU PARK MASTER PLAN
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ -	\$ 831,517	\$ 131,255	\$ (700,262)
Expenditures				
General Government	-	125,000	75,141	49,859
Capital Outlay	-	706,517	75,081	631,436
 Total Expenditures	 -	 831,517	 150,222	 681,295
 Excess (Deficit) of Revenues Over Expenditures	 -	 -	 (18,967)	 (18,967)
Other Financing Sources (Uses)				
Transfers In	-	-	18,967	18,967
 Net Change in Fund Balance	 -	 -	 -	 -
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Fund Balance June 30, 2010	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
FEDERAL AND STATE GRANT FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 250,000	\$ 500,000	\$ 312,165	\$ (187,835)
Expenditures				
General Government	-	250,000	312,165	(62,165)
Fire	250,000	250,000	-	250,000
Total Expenditures	250,000	500,000	312,165	187,835
Excess (Deficit) of Revenues Over Expenditures	-	-	-	-
Fund Balance July 1, 2009	-	-	67	67
Fund Balance June 30, 2010	\$ -	\$ -	\$ 67	\$ 67

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
ARTS DISTRICT
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Debt Service				
Principal	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Interest and Other Charges	30,000	30,000	6,689	23,311
Capital Outlay	<u>-</u>	<u>130,000</u>	<u>152,065</u>	<u>(22,065)</u>
Total Expenditures	<u>50,000</u>	<u>180,000</u>	<u>178,754</u>	<u>1,246</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(50,000)</u>	<u>(180,000)</u>	<u>(178,754)</u>	<u>1,246</u>
Other Financing Sources (Uses)				
Transfers In	39,644	39,644	13,704	(25,940)
Proceeds from Sale of Capital Assets	<u>-</u>	<u>-</u>	<u>155,040</u>	<u>155,040</u>
Total Other Financing Sources (Uses)	<u>39,644</u>	<u>39,644</u>	<u>168,744</u>	<u>129,100</u>
Net Change in Fund Balance	(10,356)	(140,356)	(10,010)	130,346
Fund Balance July 1, 2009	<u>10,356</u>	<u>10,356</u>	<u>10,010</u>	<u>(346)</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ (130,000)</u>	<u>\$ -</u>	<u>\$ 130,000</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
501 MAIN STREET OPERATIONS
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for Services	\$ 17,208	\$ 17,208	\$ 17,057	\$ (151)
Expenditures				
General Government	44,100	10,100	14,765	(4,665)
Debt Service				
Principal	46,967	46,806	46,994	(188)
Interest and Other Charges	68,094	68,094	67,882	212
 Total Expenditures	 159,161	 125,000	 129,641	 (4,641)
 Excess (Deficit) of Revenues Over Expenditures	 (141,953)	 (107,792)	 (112,584)	 (4,792)
Other Financing Sources (Uses)				
Transfers In	141,953	107,792	112,584	4,792
 Net Change in Fund Balance	 -	 -	 -	 -
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Fund Balance June 30, 2010	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
POLICE FORFEITURE
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 190,000	\$ 190,000	\$ 78,815	\$ (111,185)
Investment Earnings	10,000	10,000	152	(9,848)
Miscellaneous	-	-	3,200	3,200
	<u>200,000</u>	<u>200,000</u>	<u>82,167</u>	<u>(117,833)</u>
Total Revenues				
Expenditures				
Police	115,000	260,000	119,287	140,713
Capital Outlay	85,000	115,000	26,195	88,805
	<u>200,000</u>	<u>375,000</u>	<u>145,482</u>	<u>229,518</u>
Total Expenditures				
Excess (Deficit) of Revenues Over Expenditures				
	-	(175,000)	(63,315)	111,685
Fund Balance July 1, 2009				
	<u>-</u>	<u>175,000</u>	<u>286,568</u>	<u>111,568</u>
Fund Balance June 30, 2010				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 223,253</u>	<u>\$ 223,253</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CAD SYSTEM
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 637,000	\$ 923,000	\$ 792,712	\$ (130,288)
Investment Earnings	<u>2,000</u>	<u>2,000</u>	<u>174</u>	<u>(1,826)</u>
Total Revenues	639,000	925,000	792,886	(132,114)
Other Financing Sources (Uses)				
Transfers Out	<u>(639,000)</u>	<u>(925,000)</u>	<u>(914,000)</u>	<u>11,000</u>
Net Change in Fund Balance	-	-	(121,114)	(121,114)
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>214,971</u>	<u>214,971</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,857</u>	<u>\$ 93,857</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
RENAISSANCE GRANT FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 500,000	\$ 500,000	\$ 306,412	\$ (193,588)
Expenditures				
Community Development	100,000	100,000	26,940	73,060
Capital Outlay	400,000	400,000	39,823	360,177
Total Expenditures	<u>500,000</u>	<u>500,000</u>	<u>66,763</u>	<u>433,237</u>
Excess (Deficit) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>239,649</u>	<u>239,649</u>
Other Financing Sources (Uses)				
Transfers In	-	-	11,227	11,227
Transfers Out	-	-	(250,876)	(250,876)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(239,649)</u>	<u>(239,649)</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30, 2010	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
WORKING CAPITAL RESERVE
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers In	\$ 50,000	\$ -	\$ -	\$ -
Net Change in Fund Balance	50,000	-	-	-
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>1,770,264</u>	<u>1,770,264</u>
Fund Balance June 30, 2010	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 1,770,264</u>	<u>\$ 1,770,264</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
PROPERTY ACQUISITIONS
Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Charges for Services	\$ 125,000	\$ 492,800	\$ 10,814	\$ (481,986)
Expenditures				
Debt Service				
Principal	125,000	492,800	10,814	481,986
Interest and Other Charges	7,200	7,200	7,095	105
Total Expenditures	132,200	500,000	17,909	482,091
Excess (Deficit) of Revenues Over Expenditures	(7,200)	(7,200)	(7,095)	105
Other Financing Sources (Uses)				
Transfers In	7,200	7,200	7,085	(115)
Net Change in Fund Balance	-	-	(10)	10
Fund Balance July 1, 2009	-	-	10	(10)
Fund Balance June 30, 2010	\$ -	\$ -	\$ -	\$ -

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
HOME CONSORTIUM FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 364,625	\$ 440,644	\$ 326,093	\$ (114,551)
Expenditures				
Community Development	300,142	440,644	326,093	114,551
Capital Outlay	<u>64,483</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>364,625</u>	<u>440,644</u>	<u>326,093</u>	<u>114,551</u>
Excess (Deficit) of Revenues Over Expenditures	-	-	-	-
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
HOMELESS PREVENTION FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 364,625	\$ 440,644	\$ 63,474	\$ (377,170)
Expenditures				
Community Development	300,142	440,644	63,474	377,170
Excess (Deficit) of Revenues Over Expenditures	64,483	-	-	-
Fund Balance July 1, 2009	-	-	-	-
Fund Balance June 30, 2010	<u>\$ 64,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
NEIGHBORHOOD STABILIZATION PROGRAM
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ 5,000,000	\$ 494,066	\$ (4,505,934)
Expenditures				
Community Development	-	5,000,000	176,923	4,823,077
Capital Outlay	-	-	317,142	(317,142)
Total Expenditures	-	5,000,000	494,065	4,505,935
Excess (Deficit) of Revenues Over Expenditures	-	-	1	1
Fund Balance July 1, 2009	-	-	-	-
Fund Balance June 30, 2010	\$ -	\$ -	\$ 1	\$ 1

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CAPITAL IMPROVEMENT FUND
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 738,051	\$ 738,051	\$ 675,534	\$ (62,517)
Miscellaneous	-	-	111,732	111,732
	<u>738,051</u>	<u>738,051</u>	<u>787,266</u>	<u>49,215</u>
Total Revenues				
	<u>738,051</u>	<u>738,051</u>	<u>787,266</u>	<u>49,215</u>
Expenditures				
Debt Service				
Principal	137,731	387,731	342,473	45,258
Interest and Other Charges	55,697	105,697	83,218	22,479
Capital Outlay	4,023,834	5,666,615	2,782,313	2,884,302
	<u>4,217,262</u>	<u>6,160,043</u>	<u>3,208,004</u>	<u>2,952,039</u>
Total Expenditures				
	<u>4,217,262</u>	<u>6,160,043</u>	<u>3,208,004</u>	<u>2,952,039</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(3,479,211)</u>	<u>(5,421,992)</u>	<u>(2,420,738)</u>	<u>3,001,254</u>
Other Financing Sources (Uses)				
Transfers In	550,000	1,292,781	1,276,569	(16,212)
Proceeds from Issuance of Debt	2,929,211	4,129,211	1,040,563	(3,088,648)
Transfers Out	-	-	(7,965)	(7,965)
	<u>3,479,211</u>	<u>5,421,992</u>	<u>2,309,167</u>	<u>(3,112,825)</u>
Total Other Financing Sources (Uses)				
	<u>3,479,211</u>	<u>5,421,992</u>	<u>2,309,167</u>	<u>(3,112,825)</u>
Net Change in Fund Balance	-	-	(111,571)	(111,571)
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>158,251</u>	<u>158,251</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,680</u>	<u>\$ 46,680</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
KLC SERIES 2002
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Debt Service				
Principal	\$ 559,844	\$ 559,844	\$ 559,844	\$ -
Interest and Other Charges	<u>440,779</u>	<u>440,779</u>	<u>440,779</u>	<u>-</u>
Total Expenditures	<u>1,000,623</u>	<u>1,000,623</u>	<u>1,000,623</u>	<u>-</u>
Excess (Deficit) of Revenues Over Expenditures	(1,000,623)	(1,000,623)	(1,000,623)	-
Other Financing Sources (Uses)				
Transfers In	<u>1,000,623</u>	<u>1,000,623</u>	<u>1,000,623</u>	<u>-</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
2004 PENSION OBLIGATION BONDS
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
General Government	\$ 75,000	\$ 85,000	\$ 83,100	\$ 1,900
Debt Service				
Principal	350,000	365,000	365,000	-
Interest and Other Charges	689,544	750,000	714,833	35,167
	<u>1,114,544</u>	<u>1,200,000</u>	<u>1,162,933</u>	<u>37,067</u>
 Total Expenditures	 <u>1,114,544</u>	 <u>1,200,000</u>	 <u>1,162,933</u>	 <u>37,067</u>
 Deficit of Revenues Over Expenditures	 (1,114,544)	 (1,200,000)	 (1,162,933)	 37,067
 Other Financing Sources (Uses)				
Transfers In	<u>1,114,544</u>	<u>1,200,000</u>	<u>1,152,774</u>	<u>(47,226)</u>
 Net Change in Fund Balance	 -	 -	 (10,159)	 (10,159)
 Fund Balance July 1, 2009	 <u>-</u>	 <u>-</u>	 <u>90,691</u>	 <u>90,691</u>
 Fund Balance June 30, 2010	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 80,532</u>	 <u>\$ 80,532</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
2005 REFUNDING BONDS
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Debt Service				
Principal	\$ 1,065,000	\$ 1,065,000	\$ 1,065,000	\$ -
Interest and Other Charges	<u>124,160</u>	<u>124,160</u>	<u>124,160</u>	<u>-</u>
Total Expenditures	<u>1,189,160</u>	<u>1,189,160</u>	<u>1,189,160</u>	<u>-</u>
Deficit of Revenues Over Expenditures	(1,189,160)	(1,189,160)	(1,189,160)	-
Other Financing Sources (Uses)				
Transfers In	<u>1,189,160</u>	<u>1,189,160</u>	<u>1,189,160</u>	<u>-</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance July 1, 2009	<u>-</u>	<u>-</u>	<u>10,606</u>	<u>10,606</u>
Fund Balance June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,606</u>	<u>\$ 10,606</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
SEWER MAINTENANCE FEES
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment Earnings	\$ -	\$ -	\$ 30	\$ 30
Expenditures				
General Government	-	-	96,060	(96,060)
Principal	-	100,000	-	100,000
Total Expenditures	-	100,000	96,060	3,940
Excess (Deficit) of Revenues Over Expenditures	-	(100,000)	(96,030)	3,970
Other Financing Sources (Uses)				
Transfers In	39,644	39,644	3,638	(36,006)
Transfers Out	-	-	(4)	(4)
Total Other Financing Sources (Uses)	39,644	39,644	3,634	(36,010)
Net Change in Fund Balance	39,644	(60,356)	(92,396)	(32,040)
Fund Balance July 1, 2009	-	100,000	92,396	(7,604)
Fund Balance June 30, 2010	<u>\$ 39,644</u>	<u>\$ 39,644</u>	<u>\$ -</u>	<u>\$ (39,644)</u>

COMBINING FINANCIAL STATEMENTS
PROPRIETARY FUNDS

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2010

	Internal Service Funds		
	Liability Insurance	Medical and Dental Insurance	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 1,415,279	\$ 583,409	\$ 1,998,688
Accounts Receivable	-	77,056	77,056
Due from Other Funds	-	450,000	450,000
	<u>1,415,279</u>	<u>1,110,465</u>	<u>2,525,744</u>
Total Assets			
	<u>1,415,279</u>	<u>1,110,465</u>	<u>2,525,744</u>
Liabilities			
Current Liabilities			
Accounts Payable	3,800	5,475	9,275
Estimated Liability for Claims	820,823	873,533	1,694,356
Due to Other Funds	200,000	219,554	419,554
	<u>1,024,623</u>	<u>1,098,562</u>	<u>2,123,185</u>
Total Liabilities			
	<u>1,024,623</u>	<u>1,098,562</u>	<u>2,123,185</u>
Net Assets			
Unrestricted	\$ <u><u>390,656</u></u>	\$ <u><u>11,903</u></u>	\$ <u><u>402,559</u></u>

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2010

	Internal Service Funds		
	Liability Insurance	Medical and Dental Insurance	Total
Operating Revenues			
Insurance Premium Payments	\$ -	\$ 5,997,410	\$ 5,997,410
Other Operating Revenues	77,691	228,729	306,420
Total Operating Revenues	77,691	6,226,139	6,303,830
Operating Expenses			
Contractual Services	176,497	400,095	576,592
Claims and Judgments	917,918	5,816,422	6,734,340
Total Operating Expenses	1,094,415	6,216,517	7,310,932
Operating Loss (Income)	(1,016,724)	9,622	(1,007,102)
Non-Operating Revenues			
Investment Income	465	192	657
Loss (Income) Before Transfers	(1,016,259)	9,814	(1,006,445)
Transfers In	200,000	-	200,000
Change in Net Assets	(816,259)	9,814	(806,445)
Net Assets July 1, 2009	1,206,915	2,089	1,209,004
Net Assets June 30, 2010	\$ 390,656	\$ 11,903	\$ 402,559

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2010

	<u>Internal Service Funds</u>		
	<u>Liability Insurance</u>	<u>Medical and Dental Insurance</u>	<u>Total</u>
Cash Flows From Operating Activities			
Cash Received from Other Funds	\$ 220,433	\$ 6,735,854	\$ 6,956,287
Cash Received from Other Activities	77,691	228,729	306,420
Cash Paid for Claims	<u>(271,831)</u>	<u>(6,625,941)</u>	<u>(6,897,772)</u>
Net Cash Provided by Operating Activities	26,293	338,642	364,935
Cash Flows from Non-Capital Financing Activities			
Transfer from Other Funds	200,000	-	200,000
Cash Flows from Investing Activities			
Interest Income	<u>465</u>	<u>192</u>	<u>657</u>
Net Change in Cash	226,758	338,834	565,592
Cash and Cash Equivalents July 1, 2009	<u>1,188,521</u>	<u>244,575</u>	<u>1,433,096</u>
Cash and Cash Equivalents June 30, 2010	<u>\$ 1,415,279</u>	<u>\$ 583,409</u>	<u>\$ 1,998,688</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating (Loss) Income	\$ (1,016,724)	\$ 9,622	\$ (1,007,102)
Change in Assets and Liabilities			
Accounts Receivable	-	(77,056)	(77,056)
Due from Other Funds	40,866	602,874	643,740
Accounts Payable	1,761	4,723	6,484
Estimated Liability for Claims	820,823	(414,147)	406,676
Due to Other Funds	<u>179,567</u>	<u>212,626</u>	<u>392,193</u>
Net Cash Provided by Operating Activities	<u>\$ 26,293</u>	<u>\$ 338,642</u>	<u>\$ 364,935</u>

INDIVIDUAL FUND SCHEDULES
PROPRIETARY FUNDS

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (WITH VARIANCES)
LIABILITY INSURANCE
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Other Operating Revenues	\$ -	\$ -	\$ 77,691	\$ 77,691
Operating Expenses				
Contractual Services	160,000	212,500	176,497	36,003
Claims and Judgments	65,000	287,500	917,918	(630,418)
Total Operating Expenses	<u>225,000</u>	<u>500,000</u>	<u>1,094,415</u>	<u>(594,415)</u>
Operating Loss	(225,000)	(500,000)	(1,016,724)	(516,724)
Non-Operating Revenues				
Investment Income	<u>25,000</u>	<u>25,000</u>	<u>465</u>	<u>(24,535)</u>
Income (Loss) Before Transfers	(200,000)	(475,000)	(1,016,259)	(541,259)
Transfers In	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Change in Net Assets	-	(275,000)	(816,259)	(541,259)
Net Assets July 1, 2009	<u>-</u>	<u>275,000</u>	<u>1,206,915</u>	<u>931,915</u>
Net Assets June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 390,656</u>	<u>\$ 390,656</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (WITH VARIANCES)
MEDICAL AND DENTAL INSURANCE
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Insurance Premium Payments	\$ 5,464,212	\$ 6,148,500	\$ 5,997,410	\$ (151,090)
Other Operating Revenues	<u>150,000</u>	<u>150,000</u>	<u>228,729</u>	<u>78,729</u>
Total Operating Revenues	<u>5,614,212</u>	<u>6,298,500</u>	<u>6,226,139</u>	<u>(72,361)</u>
Operating Expenses				
Contractual Services	391,017	391,017	400,095	(9,078)
Claims and Judgments	<u>5,200,000</u>	<u>5,884,288</u>	<u>5,816,422</u>	<u>67,866</u>
Total Operating Expenses	<u>5,591,017</u>	<u>6,275,305</u>	<u>6,216,517</u>	<u>58,788</u>
Operating Loss	23,195	23,195	9,622	(13,573)
Non-Operating Revenues				
Investment Income	<u>1,500</u>	<u>1,500</u>	<u>192</u>	<u>(1,308)</u>
Income (Loss) Before Transfers	24,695	24,695	9,814	(14,881)
Net Assets July 1, 2009	<u>-</u>	<u>-</u>	<u>2,089</u>	<u>2,089</u>
Net Assets June 30, 2010	<u>\$ 24,695</u>	<u>\$ 24,695</u>	<u>\$ 11,903</u>	<u>\$ (12,792)</u>

STATISTICAL SECTION (1)

- (1) A statistical table presenting Revenue Bond Coverage – last ten fiscal years is not included since the City has no enterprise funds.

A statistical table presenting direct and overlapping debt is not included since no general obligation bonds are outstanding.

A statistical table presenting special assessments billings and collections is not included since there are no special assessments.

**CITY OF COVINGTON, KENTUCKY
STATISTICAL SECTION
NARRATIVE AND CONTENTS**

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding this year's financial statements, note disclosures, and supplementary information. This information is unaudited.

Contents

Financial Trends

These tables contain trend information that may assist the reader in assessing the City's current financial performance by placing it in historical perspective.

Revenue Capacity

These tables contain information that may assist the reader in assessing the viability of the City's most significant "own-source" revenue source, property taxes.

Debt Capacity

These tables present information that may assist the reader in analyzing the affordability of the County's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These tables present demographic and economic information intended (1) to assist users in understanding the socioeconomic environment within which the City operates and (2) to provide information that facilitates comparisons of financial statement information over time and among cities.

Operating Information

These tables contain service and infrastructure indicators that can inform one's understanding how the information in the City's financial statements relates to the services the City provides and the activities it performs.

Data Source:

Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial report for the applicable year. The City implemented GASB Statement No, 34 in fiscal year 2002 therefore tables presenting government-wide financial data include only eight years of information.

Schedule 1
City of Covington
Net Assets by Component,
Last Eight Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental Activities / Primary Government								
Invested in Capital Assets, net of Related Debt	34,539,885	36,577,167	41,334,965	39,709,313	40,851,867	41,483,876	4,519,630	(2,888,790)
Restricted	91,138	193,693	550,682	888,123	1,307,719	1,593,846	1,943,252	1,943,882
Unrestricted	13,587,660	16,638,487	16,603,105	17,286,863	15,104,828	1,947,609	15,614,883	22,540,375
Total Governmental Activities Net Asset	<u>48,218,683</u>	<u>53,409,347</u>	<u>58,488,752</u>	<u>57,884,299</u>	<u>57,264,414</u>	<u>45,025,331</u>	<u>22,077,765</u>	<u>21,595,467</u>

Note: The city implemented GASB Statement 34 in fiscal year 200:

Schedule 2
City of Covington
Changes in Net Assets, Last Eight Fiscal Years
Last Seven Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
Expenses								
Governmental Activities:								
General Government	6,089,518	12,149,528	7,807,872	6,975,709	7,781,587	9,381,965	3,939,011	4,822,043
Police	16,498,516	15,593,684	15,501,195	14,873,868	14,482,761	13,660,495	13,582,260	12,712,976
Fire	15,048,966	14,224,985	14,753,208	13,595,531	12,512,512	11,930,245	11,286,851	10,328,208
General Service	11,847,116	7,185,210	5,995,347	6,001,968	5,324,831	5,561,622	8,020,228	7,440,215
Recreation	796,215	2,740,960	2,426,639	2,350,546	2,325,250	2,575,568	1,045,289	787,164
Code Enforcement and Economic Development	12,484,045	10,217,357	9,777,154	9,345,867	9,817,626	9,086,241	9,825,619	10,876,935
Parking Garage	732,362	701,986	747,677	734,401	727,419	803,715	809,425	743,982
Interest on Long-term Debt	1,716,153	2,052,549	1,935,242	1,872,816	1,919,888	1,437,434	1,171,229	1,605,271
Total Governmental Activities Expenses	65,212,891	64,866,259	58,944,334	55,750,706	54,891,874	54,437,285	49,679,912	49,316,794
Program Revenues								
Governmental Activities:								
General Government	1,136,249	993,267	1,145,333	1,096,558	1,215,111	761,041	1,928,888	1,737,441
Police	412,722	406,557	382,318	331,579	372,192	-	344,287	516,097
Fire	1,282,105	1,077,448	1,084,825	1,073,548	912,526	987,802	546,276	510,848
General Service	1,918,838	1,859,171	1,464,056	1,170,789	1,226,952	1,092,970	1,154,023	1,373,968
Recreation	-	-	-	-	-	-	90,465	39,525
Code Enforcement and Economic Development	79,317	37,833	41,860	114,177	56,017	-	-	1,312,485
Parking Garage	1,179,276	1,143,276	1,120,916	1,041,332	1,059,369	1,252,755	-	-
Interest on Long-term Debt	-	-	-	-	-	-	1,194,146	-
Operating Grants and Contributions	10,727,972	9,664,170	10,823,567	8,840,224	9,652,316	8,754,883	9,218,291	9,114,414
Capital Grants and Contributions	1,624,312	1,650,920	2,050,654	1,279,884	716,322	3,106,704	902,562	799,478
Total Governmental Activities Expenses	18,360,791	16,832,642	18,113,529	14,948,091	15,210,805	15,956,155	15,378,938	15,404,256
Total Net (expense) revenue	(46,852,100)	(48,033,617)	(40,830,805)	(40,802,615)	(39,681,069)	(38,481,130)	(34,300,974)	(33,912,538)
General Revenues and Other changes in Net Assets								
Governmental Activities:								
Taxes								
Real Property Taxes, Levied for General Purposes	6,114,035	6,024,885	4,680,355	5,590,772	5,913,401	4,399,593	4,945,540	5,094,960
Personal Property Taxes, Levied for General Purposes	557,999	653,748	601,109	553,057	589,401	496,286	474,360	679,089
Public Services Taxes	2,085,706	2,140,821	2,178,804	1,978,504	2,092,335	1,909,267	1,892,053	2,078,467
Taxes, Levied for Bank Deposits	60,603	53,161	67,789	59,042	62,232	62,323	102,802	74,272
Insurance Premium Taxes	5,588,067	5,430,628	4,860,194	5,242,337	5,324,223	5,240,743	4,909,972	4,746,726
Payroll Taxes	22,850,229	23,697,247	23,287,559	21,656,929	21,263,831	19,543,654	18,319,549	17,683,867
Net Profit Taxes	2,285,504	2,555,089	2,779,489	2,959,729	2,554,150	2,303,123	2,590,933	1,993,189
Other Taxes	796,091	790,752	647,217	552,641	490,889	358,751	376,845	351,664
Investment earnings	25,094	112,064	317,416	389,885	310,239	228,382	132,820	186,286
Fines and Forfeitures	-	-	-	-	-	444,832	-	-
Licenses and Permits	-	-	-	-	-	367,376	-	-
Commissions	-	-	-	-	-	-	-	-
Special item - Gain/(Loss) on Sale of Capital Assets	-	-	-	214,010	576,242	-	-	-
Miscellaneous	1,298,108	1,495,817	2,015,326	2,225,594	1,710,802	1,878,640	1,038,363	20,047,710
Transfers	-	-	-	-	-	(14,275,000)	-	(345,200)
Total General Revenues and Transfers	41,661,436	42,954,212	41,435,258	41,422,500	40,887,745	22,957,970	34,783,237	52,591,030
Change in Net Assets								
Total Primary Government	(5,190,664)	(5,079,405)	604,453	619,885	1,206,676	(15,523,160)	482,263	18,678,492

Note: The city implemented GASB Statement 34 in fiscal year 2003.

Schedule 3
City of Covington
Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
General Fund										
Reserved		41,414	4,483	1,611	\$ 122,892	\$ 5,388	\$ -	\$ -	\$ 125,771	\$ 115,779
Unreserved	342,498	730,555	735,839	675,320	550,513	229,739	291,457	920,556	1,204,885	1,208,499
Total general fund	<u>342,498</u>	<u>\$ 771,969</u>	<u>\$ 740,322</u>	<u>\$ 676,931</u>	<u>\$ 673,405</u>	<u>\$ 235,127</u>	<u>\$ 291,457</u>	<u>\$ 920,556</u>	<u>\$ 1,330,656</u>	<u>\$ 1,324,278</u>
All Other Governmental Funds										
Reserved		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,342	\$ -
Unreserved, reported in:										
Special revenue funds	4,007,906	4,821,080	4,296,812	3,713,572	810,353	1,207,276	2,578,865	3,439,783	3,037,818	4,466,029
Capital projects funds	(12,984)	158,251	91,947	469,730	-	-	-	-	-	-
Debt service funds	91,138	193,693	550,682	888,123	1,307,719	1,593,846	3,745,979	4,053,087	6,494,886	13,141,399
Total all other governmental funds	<u>\$ 4,086,060</u>	<u>\$ 5,173,024</u>	<u>\$ 4,939,441</u>	<u>\$ 5,071,425</u>	<u>\$ 2,118,072</u>	<u>\$ 2,801,122</u>	<u>\$ 6,324,844</u>	<u>\$ 7,492,870</u>	<u>\$ 9,572,046</u>	<u>\$ 17,607,428</u>

Schedule 4
City of Covington
Changes in Fund Balances, Governmental Funds,
Last Eight Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
Revenues								
Taxes	14,987,054	14,707,297	13,682,151	13,554,260	13,466,713	12,762,470	12,395,102	12,104,042
Licenses and Permits	25,429,776	26,550,329	26,357,476	24,897,197	24,123,130	22,214,153	21,287,327	20,028,720
Intergovernmental	12,166,647	11,691,463	12,063,637	11,204,089	10,345,557	9,636,936	10,120,853	9,913,892
Charges for services	5,227,073	4,744,058	4,527,680	4,104,170	4,128,721	4,094,568	4,745,670	4,721,842
Fines and Forfeitures	746,322	712,072	669,260	711,786	603,286	444,832	478,752	447,020
Investment Earnings	24,439	99,619	270,519	330,536	278,531	223,704	123,538	186,286
Miscellaneous	1,351,353	1,557,868	2,382,312	2,342,372	1,734,234	4,109,294	1,539,153	2,656,223
Total Revenues	59,932,664	60,062,706	59,953,035	57,144,410	54,680,172	53,485,957	50,690,395	50,058,025
Expenditures								
Current								
General Government	3,785,714	3,783,523	3,554,133	3,092,518	3,537,750	3,365,074	3,366,630	3,558,293
Police	15,593,494	14,886,861	15,013,636	14,359,432	14,109,828	13,239,562	12,833,125	11,913,958
Fire	13,812,934	13,306,319	13,959,222	12,989,464	12,168,065	11,429,099	10,800,154	9,947,813
General Service	6,514,905	6,690,503	5,644,983	5,292,360	5,180,111	5,358,833	7,761,571	7,105,526
Recreation	504,309	2,533,103	2,347,048	2,309,959	2,289,413	2,372,300	717,870	737,049
Code Enforcement and Economic Development	12,175,797	10,138,570	9,771,182	9,098,909	9,832,881	9,096,233	9,778,417	10,831,082
Parking Garage	732,362	701,986	747,677	734,401	727,419	803,715	809,425	743,982
Debt Service								
Principal	2,980,841	3,516,517	2,918,585	2,727,985	2,763,879	5,553,494	7,665,518	12,325,046
Interest and Other Charges	1,679,854	2,054,516	1,829,031	1,701,223	1,965,386	1,509,839	1,464,763	1,605,271
Capital Outlay	4,982,528	6,715,050	4,159,916	3,257,621	2,701,215	6,722,898	3,082,026	6,247,041
Total Expenditures	62,762,738	64,326,948	59,945,413	55,563,872	55,275,947	59,451,047	58,279,499	65,015,061
Excess of revenues Over (under) Expenditures	(2,830,074)	(4,264,242)	7,622	1,580,538	(595,775)	(5,965,090)	(7,589,104)	(14,957,036)
Other Financing Sources (Uses)								
Bonds issued						12,806,241	4,996,000	-
Capital lease proceeds		4,509,181		1,630,000			840,944	12,809,056
Transfers in	6,028,123	6,063,518	5,377,180	6,169,710	6,006,833	11,506,504	3,006,160	2,766,134
Transfer out	(6,228,123)	(6,747,200)	(5,881,142)	(6,663,029)	(6,252,032)	(25,926,704)	(3,051,160)	(3,111,334)
Proceeds from short term debt	1,040,563	75,419	427,747		596,202			
Miscellaneous						(1,003)		
Total other financing sources (uses)	840,563	3,900,918	(76,215)	1,136,681	351,003	(1,614,962)	5,791,944	12,463,856
Special Item								
Proceeds from Sale of Capital Asset	532,740	628,554		239,660				
Net change in fund balances	(1,456,771)	265,230	(68,593)	2,956,879	(244,772)	(7,580,052)	(1,797,160)	(2,493,180)
Debt service as a percentage of non capital expenditures	8.07%	9.67%	8.51%	8.47%	9.00%	13.40%	16.54%	23.70%

Note: With the implementation of GASB statement 34 in fiscal year 2003, classification of revenue and expenditure by category were revised and not restated for earlier fiscal years

**Schedule 5
City of Covington
Occupational License Fees - Payroll Withholding
Last Ten Fiscal Years**

Fiscal Year	Total Gross Taxable Wages	Total Withholding Fees	Total Direct Rate
2001	65,562,528,000	16,390,632	0.025%
2002	67,515,012,000	16,878,753	0.025%
2003	70,735,468,000	17,683,867	0.025%
2004	73,278,196,000	18,319,549	0.025%
2005	78,174,616,000	19,543,654	0.025%
2006	85,055,324,000	21,263,831	0.025%
2007	86,627,716,000	21,656,929	0.025%
2008	93,150,236,000	23,287,559	0.025%
2009	94,788,988,000	23,697,247	0.025%
2010	91,400,916,000	22,850,229	0.025%

Notes: There has been no change in tax rate since adoption in 1966

**Schedule 6
City of Covington
Principal Occupational Payroll Tax Payers
Current Year and Nine Years Ago**

Taxpayer	
2010	2001
A. C. Nielsen	A. C. Nielsen
Atkins & Pearce	Atkins & Pearce
Club Chef	Commonwealth of Kentucky
Commonwealth of Kentucky	Covington Board of Education
Covington Board of Education	Duro Bag
Fidelity Investments	Fidelity Investments
Internal Revenue Service	Internal Revenue Service
No. Ky. Mental Health and Retardation Board	No. Ky. Mental Health and Retardation Board
Omnicare	Rosedale Manor
St. Elizabeth Hospital	St. Elizabeth Hospital

Notes: Taxpayer information is listed alphabetically.

Source: City of Covington Finance Department

Schedule 7
City of Covington
Assessed Value and Estimated Actual Value of Taxable Property,
Last Ten Fiscal Years

Fiscal Year	Real Property	Personal Property	Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2000	1,240,574	171,655	57,440	1,354,789	0.322
2001	1,318,915	190,967	59,908	1,449,974	0.322
2002	1,374,693	179,133	60,047	1,493,779	0.322
2003	1,554,730	179,132	57,688	1,676,174	0.299
2004	1,600,532	155,966	58,542	1,697,956	0.299
2005	1,617,670	160,191	57,720	1,720,141	0.299
2006	1,687,690	203,668	57,570	1,833,788	0.299
2007	1,828,664	195,876	58,296	1,966,244	0.284
2008	1,861,435	187,585	61,243	1,987,777	0.292
2009	1,897,368	217,242	59,898	2,054,712	0.299
2010	2,014,385	159,294	62,311	2,111,368	0.299

Notes: Property in Covington is reassessed once every four years. City property was last reassessed in 2007. The next reassessment will occur in 2011. The reassessment is conducted by the Kenton County Property Value Administrator. The property is assessed at 100% of value.

Values are stated in thousands of dollars

Tax rates are per \$100 of assessed value.

Schedule 8
City of Covington
Direct and Overlapping Property Tax Rates,
Last Ten Fiscal Years
(rate per \$100 of assessed value)

Fiscal Year	City Direct Rate	School Districts			Totals			
		Covington Independent	Kenton County	County	State	Other	Covington Schools Area	Kenton County Schools Area
2001	0.3223	0.890	0.477	0.1310	0.136	0.1100	1.5893	1.1763
2002	0.3223	0.865	0.492	0.1310	0.135	0.1120	1.5420	1.1690
2003	0.2990	0.894	0.548	0.1310	0.133	0.1150	1.5720	1.2260
2004	0.2990	0.925	0.558	0.1350	0.131	0.1320	1.6220	1.2550
2005	0.2990	0.942	0.556	0.1360	0.131	0.1350	1.6430	1.2570
2006	0.2990	0.922	0.556	0.1380	0.128	0.1410	1.6132	1.2472
2007	0.2842	0.961	0.564	0.1410	0.124	0.1488	1.6590	1.2620
2008	0.2924	0.961	0.564	0.1420	0.124	0.1488	1.6682	1.2712
2009	0.2995	0.989	0.558	0.1420	0.122	0.1530	1.7055	1.2745
2010	0.2995	1.026	0.558	0.1480	0.122	0.1650	1.7605	1.2925

Notes: Portions of the City of Covington are located in Kenton County Common School District and pay taxes to that entity instead of Covington Independent School District. Consequently both rates are shown.

The city's basic property tax may be increased up to the compensating rate plus 4% without being subject to a voter referendum. The compensating rate is defined as that rate which when applied to the current years assessment of property subject to taxation excluding new property and personal property produces an amount of revenue equal to that produced in the preceding year.

**Schedule 9
City of Covington
Principal Property Tax Payers,
Current Year and Nine Years Ago**

<u>Taxpayer</u>	<u>2010</u>			<u>2000</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Fidelity Properties Inc	\$ 195,571,500	1	9.41%	\$ 61,406,500	1	6.03%
CPX-Rivercenter Dev/Corp	140,213,500	2	6.75%	105,948,100	2	3.49%
Scott Street Land Co. Inc	14,960,900	3	0.72%			
OZRE Lodging I LLC	13,947,100	4	0.67%			
Atkins & Pearce Manu.	10,900,000	5	0.52%	12,432,500	3	0.71%
J & S Latonia Centre KY LLC	10,482,000	6	0.50%	10,649,000	4	0.61%
Packaging Unlimited	8,691,500	7	0.42%			
CCC LLC	6,812,500	8	0.33%			
Latonia Plaza KY LLC	6,565,000	9	0.32%			
Truss Realty	6,550,000	10	0.32%	7,758,500	7	0.58%
Atria Highland Crossing				10,100,000	5	0.44%
J G Covington Hotel, LLC				9,600,000	6	0.55%
Bluffs Apartments, LLC				7,575,000	8	0.43%
Gibson Greeting Card				7,118,000	9	0.41%
A.C.C.D. Co. Inc.				6,486,000	10	0.37%
Total	\$ 414,694,000		19.96%	\$ 239,073,600		13.62%

Schedule 10
City of Covington
Property Tax Levies and Collections,
Last Eight Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$ 5,011,764	\$ 4,824,742	96.27%	\$ 176,745	\$ 5,001,487	99.79%
2004	5,076,892	4,907,183	96.66%	\$ 153,061	\$ 5,060,244	99.67%
2005	5,143,225	4,926,477	95.79%	\$ 187,646	\$ 5,114,123	99.43%
2006	5,483,028	5,293,287	96.54%	\$ 140,888	\$ 5,434,175	99.11%
2007	5,656,394	5,469,125	96.69%	\$ 111,616	\$ 5,580,741	98.66%
2008	5,900,071	5,672,319	96.14%	\$ 124,295	\$ 5,796,614	98.25%
2009	6,222,001	5,970,349	95.96%	\$ 64,302	\$ 6,034,651	96.99%
2010	6,385,509	6,027,733	94.40%		\$ 6,027,733	94.40%

Note: Data was not available in the same format presented with the implementation of GASB Statement 44 prior to 2003.

Schedule 11
City of Covington
Ratios of Outstanding Debt by Type,
Last Eight Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Obligation Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
2003	\$ -	\$ 36,734	\$ 36,734	3.40%	\$ 847
2004	4,962	29,344	34,306	3.18%	\$ 791
2005	26,487	19,415	45,902	4.26%	\$ 1,058
2006	27,907	15,231	43,138	4.00%	\$ 995
2007	25,888	16,153	42,041	3.90%	\$ 970
2008	23,790	15,271	39,061	3.62%	\$ 901
2009	21,622	18,782	40,404	3.75%	\$ 932
2010	20,811	17,663	38,474	4.16%	\$ 893

Note: Details of city's outstanding debt can be found in the notes to the financial statements.
Data was not available in the same format presented with the implementation of GASB
Statement 44 prior to 2003.

(a) See Schedule 12 for personal income and population data.

Schedule 12
City of Covington
Ratios of General Bonded Debt Outstanding,
Last Eight Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2003	\$ -	0.00%	\$ -
2004	4,962	0.29%	114.41
2005	26,487	1.54%	643.46
2006	27,907	1.52%	596.86
2007	25,888	1.32%	596.91
2008	23,790	1.20%	548.54
2009	21,622	1.05%	498.55
2010	20,811	0.99%	483.06

Note: The City had no General Obligation Bonds prior to fiscal year 2003.

Schedule 13
City of Covington
Legal Debt Margin Information,
Last Eight Fiscal Years
(dollars in thousands)

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	\$ 2,077,462
Debt limit (10% of assessed value)	\$ 207,746
Debt applicable to limit:	
General Obligation	\$ 20,811
Total net debt applicable to limit	<u>\$ 20,811</u>
Legal debt margin	<u>\$ 186,935</u>

Fiscal Year

	2010	2009	2008	2007	2006	2005	2004	2003
Debt limit	\$ 207,746	\$ 205,471	\$ 198,778	\$ 196,624	\$ 183,379	\$ 172,014	\$ 169,796	\$ 167,618
Total net debt applicable to limit	<u>20,811</u>	<u>21,622</u>	<u>23,790</u>	<u>25,888</u>	<u>27,907</u>	<u>26,487</u>	<u>4,962</u>	<u>-</u>
Legal debt margin	<u>\$ 186,935</u>	<u>\$ 183,849</u>	<u>\$ 174,988</u>	<u>\$ 170,736</u>	<u>\$ 155,472</u>	<u>\$ 145,527</u>	<u>\$ 164,834</u>	<u>\$ 167,618</u>
Total net debt applicable to the limit as a percentage of debt limit	10.02%	10.52%	11.97%	13.17%	15.22%	15.40%	2.92%	0.00%

Note: The City had no total debt applicable to limit prior to fiscal year 2003.

**Schedule 14
City of Covington
Demographic and Economic Statistics,
Last Ten Fiscal Years**

Fiscal Year	Population (a)	Personal Income (a) <i>(thousands of dollars)</i>	Per Capita Personal Income (a)	Median Age (a)	School Enrollment (b)	Unemployment Rate (c)
2000	43,370	1,077,787	24,851	33.1	4,660	3.3%
2001	43,370	1,077,787	24,851	33.1	4,415	3.2%
2002	43,370	1,077,787	24,851	33.1	4,299	4.6%
2003	43,370	1,077,787	24,851	33.1	4,190	6.0%
2004	43,370	1,077,787	24,851	33.1	4,034	5.7%
2005	43,370	1,077,787	24,851	33.1	3,889	5.6%
2006	43,370	1,077,787	24,851	33.1	3,975	5.2%
2007	43,370	1,077,787	24,851	33.1	3,937	4.5%
2008	43,370	1,077,787	24,581	33.1	3,958	5.6%
2009	43,235	928,212	21,469	35.9	4,002	10.4%
2010	43,082	924,927	21,469	35.9	4,066	10.2%

Sources:

(a) U. S. Department of the Census (2010 Census) & (1996 Census)
2009 Data U. S. Census Bureau 2006-2008 American Community Survey 3-Year Estimate

(b) Kentucky Department of Education

(c) Kentucky Cabinet for Workforce Development

**Schedule 15
City of Covington
Principal Employers,
Current Year**

Employer	2010		
	Employees	Rank	Percentage of Total City Employment
Internal Revenue Service	4,500	1	20.74%
Fidelity Investments	3,900	2	17.97%
Covington Board of Education	925	3	4.26%
St. Elizabeth Hospital	800	4	3.69%
A. C. Nielsen	400	5	1.84%
State of Kentucky	360	6	1.66%
Ommicare	325	7	1.50%
Club Chef	300	8	1.38%
No. KY MH-MR Board	280	9	1.29%
Atkins & Pearce Mftg	225	10	1.04%
Total	12,015		55.37%

Note: Data is unavailable for nine years ago.

Source: City of Covington Finance Department

**Schedule 16
City of Covington
Full-Time-Equivalent City Government Employees by Function/Program,
Last Ten Fiscal Years**

	Full-time-Equivalent Employees as of June 30									
<u>Function/Program</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
General government										
Management services	16	16	16	16	17	17	18	17	15	12
Finance	13	14	14	14	15	15	16	15	15	14
Economic development	7	7	7	6	5	5	7	6	5	4
Code enforcement	12	11	11	9	10	10	10	9		
Housing	16	16	16	16	16	16	18	20	24	24
Police										
Officers	116	116	116	116	116	116	116	113	113	110
Civilians	31	31	31	33	34	34	32	31	31	31
Fire										
Firefighters and officers	118	118	118	118	118	118	117	117	117	117
Civilians	1	1	1	1	1	1	1	1	1	1
Other public works										
Public works	51	35	35	35	36	38	38	38	52	49
Engineering	4	4	4	3	2	2	3	3	3	3
Parks and recreation	2	20	20	18	20	20	20	20	3	3
Total	387	389	389	385	390	392	396	390	379	368

Source: City of Covington Finance Department

**Schedule 17
City of Covington
Operating Indicators by Function/Program,
Last Ten Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Police										
Physical arrests	5,899	5,248	5,321	5,762	5,819	5,342	5,017	5,167	4,942	5,177
Parking violations	13,926	15,873	14,230	14,863	15,622	14,721	13,016	13,775	15,494	14,216
Traffic violation	5,796	5,116	5,856	5,778	5,721	5,894	5,714	5,581	5,919	5,478
Fire										
Fire responses	2,657	2,818	3,658	3,752	3,985	4,167	3,951	4,209	4,376	4,218
Ambulance runs	8,595	10,542	11,549	10,246	9,742	8,602	7,927	7,931	7,755	7,435
Inspections	1,966	2,212	2,440	2,540	2,576	2,521	2,696	2,618	3,291	2,348

Source: City of Covington Police and Fire Record Management System

**Schedule 18
City of Covington
Capital Assets Statistics by Function/Program,
Last Ten Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Zone offices	4	4	4	4	4	4	5	5	5	5
Patrol units	83	83	83	83	83	83	83	83	83	83
Fire stations	5	5	5	5	5	5	5	5	5	5
Other public works										
Streets (miles)	120	120	120	120	130	126	126	120	120	120
Streetlights	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,246
Parks and recreation										
Acreage	850	850	850	850	850	850	850	850	850	850
Playgrounds	28	28	28	28	28	28	28	28	28	28
Baseball/softball diamonds	10	10	10	10	10	10	10	10	10	10
Soccer/football fields	5	5	5	5	5	5	5	5	5	5
Swimming pools	4	4	4	4	4	4	4	4	4	4

Source: City of Covington Engineering Department

SINGLE AUDIT SECTION

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Fund Balance at June 30, 2009</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance at June 30, 2010</u>
U.S. Department of HUD						
Direct Programs						
Section 8 Housing Choice Vouchers	14.871	KY-133-VO-0054-0F04	\$ -	\$ 5,526,721 (F)	\$ 5,526,721 (F)	\$ -
			1,558,841	6,175 (NF)	696,997 (NF)	868,019
Community Development Block Grants/ Entitlement Grants	14.218 (M)	B-02-MC-21-0001	-	2,308,319 (F)	2,308,319 (F)	-
			-	712,753 (NF)	712,753 (NF)	-
Emergency Shelter Program (HPRP) (ARRA)	14.231		-	63,474 (F)	63,474 (F)	-
HOME Program	14.239 (M)	M-02-MC-21-0200	176,775	147,488 (NF)	123,360 (NF)	200,903
		M-03-MC-21-0200	-	515,173 (F)	515,173 (F)	-
Neighborhood Stabilization Program (ARRA)	14.256 (M)		-	494,066 (F)	494,066 (F)	-
U.S. Department of Transportation						
Pass Through From Kentucky Transportation Cabinet						
Streetscapes	20.200		-	31,858 (F)	31,858 (F)	-
State and Community Highway Safety	20.600		-	25,000 (F)	25,000 (F)	-
U.S. Department of the Interior						
Direct Programs						
Historic Preservation Fund	15.904 (M)		-	105,766 (F)	105,766	-
U.S. Environmental Protection Agency						
Direct Programs						
Erosion Project	66.202		-	12,560 (F)	12,560 (F)	-
Brownfield Assessments and Cleanup	66.818		-	254,185 (F)	254,185 (F)	-
Total Federal Financial Assistance			-	9,337,122 (F)	9,337,122 (F)	-
			\$ <u>1,735,616</u>	\$ <u>866,416</u> (NF)	\$ <u>1,533,110</u> (NF)	\$ <u>1,068,922</u>

F - Federal Funds
 NF - Non-Federal Funds
 M - Major Program

Note to Schedule of Federal Awards

Basis of Presentation - The accompanying Schedule of Federal Awards includes federal grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Covington, Kentucky as of and for the year ended June 30, 2010, which collectively comprise the City of Covington, Kentucky's basic financial statements and have issued our report thereon dated November 19, 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. Other auditors audited the financial statements of Devou Properties, Inc. as described in our report on the City of Covington, Kentucky's financial statements. The financial statements of Devou Properties, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Covington, 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 City of Covington, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Kentucky's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control 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.

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

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky
Page Two

Compliance and Other Matters

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

We noted certain matters that we reported to management of The City of Covington, Kentucky, in a separate letter dated November 19, 2010.

This report is intended solely for the information and use of the finance committee, management, others within the organization, the Mayor and Board of Commissioners 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.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
November 19, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

Compliance

We have audited the compliance of the City of Covington, Kentucky with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Covington, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Covington, Kentucky's management. Our responsibility is to express an opinion on City of Covington, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Covington, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Covington, Kentucky's compliance with those requirements.

In our opinion, the City of Covington, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of Covington, Kentucky is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Covington, Kentucky's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Kentucky's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We do not consider the deficiency described in the accompany schedule of findings and questioned costs to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-1 to be a significant deficiency.

The City of Covington's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Covington's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the finance committee, management, others within the organization, the Mayor and Board of Commissioners 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.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
November 19, 2010

**CITY OF COVINGTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010**

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Financial Statement Opinion	Unqualified
Were there any significant deficiencies in internal control reported at the financial statements level (GAGAS)?	No
Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
FEDERAL AWARDS	
Were there any significant deficiencies in internal control reported for major federal programs?	Yes
Were there any material weaknesses reported for major federal programs?	None Reported
Type of Major Programs Compliance Opinion	Unqualified
Is there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510?	Yes
Major Programs (list):	Community Development Block Grants [CFDA 14.218], HOME Program [CFDA 14.239], Neighborhood Stabilization Program [CFDA 14.256], Historic Preservation Fund [CFDA 15.904]
Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: > all others
Low Risk Auditee?	Yes

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters to be reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Internal Control Over Compliance

HOME Investment Partnership Program – CFDA No. 14.239; Grant No. M-03-MC-21-0200; Grant Period; Year Ended June 30, 2010.

2010-1

Condition: A haphazard sample of 40 loan files was selected. Our tests disclosed that 2 of the 40 files did not contain proper documentation of the recorded loans. The total amount of the federal grant for the year was \$515,173, and the outstanding balance of loans in the HOME program was \$6,084,027 as of June 30, 2010.

Criteria: Loans should be recorded with the county to ensure the City's interest in the property is documented in case of default.

Effect: \$13,000 of the HOME Program loans are questioned for proper recording documentation not available for our examination. We consider this to be immaterial to the program.

Cause: The City's standard policies and procedures were not followed.

Recommendation: Appropriate written policies and procedures should be established and enforced to ensure proper recording of each loan originated and documentation is obtained.

Management's Response:

A policy is in place effective July 1, 2010 to review HOME Homebuyer Assistance Program files, As part of the review, Grants Administrator verifies the status of City mortgages.

Review Procedure:

- Grants Administrator utilizes a checklist for file review after homebuyer loans close and funds disburse. An item on the checklist relates to verification of mortgage recording
- Within 30 days of City loan closing with homebuyer, Grants Administrator reviews Property Valuation Administration (PVA) website to verify:
 - Property has transferred to the HOME program homebuyer
 - City mortgage has been recorded (deed book and page are noted on the file checklist)
- If property has not transferred, file returned to HOME program staff to contact homebuyer to determine cause of delay. If closing is not going forward, City checks are voided and file is closed. If closing will proceed, the file is marked for follow up based on timing provided by homebuyer.
- If property has transferred but City's mortgage not recorded:
 - Finance Department contacted to determine if recorded mortgage has been returned to the City
 - If mortgage has not been returned, HOME program staff contacts title company that handled closing to determine status. If title company has the City's mortgage but has failed to record it, the HOME program staff will direct title company to return the mortgage to the City for filing
 - If City mortgage cannot be located, HOME program staff will contact homebuyer to sign new mortgage and will record it.

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Internal Control Over Compliance

HOME Investment Partnership Program – CFDA No. 14.239; Grant No. M-03-MC-21-0200; Grant Period; Year Ended June 30, 2009.

2009-1

Condition: A haphazard sample of 40 loan files was selected. Our tests disclosed that 2 of the 40 files did not contain proper income and debt verifications. The total amount of the federal grant for the year was \$1,106,412, and the outstanding balance of loans in the HOME program was \$5,537,760 as of June 30, 2009.

Criteria: Income and debt verification should be gathered to ensure participants are eligible and able to repay amounts within the terms of the program.

Effect: \$109,280 of the HOME Program loans are questioned for income and debt verification documentation not available for our examination. We consider this to be material to the program.

Cause: The City's standard policies and procedures were not followed.

Recommendation: Appropriate written policies and procedures should be established and enforced to ensure proper income and debt verification documentation is obtained.

Management's Response: Internal review of compliance with standard policy and procedures will be implemented including checklists for required documentation.

Current Year Status:

This condition appears to have been corrected.