

CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2011

Prepared By:
Robert J. Due
Director of Finance

**CITY OF COVINGTON, KENTUCKY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION



CITY OF COVINGTON

638 MADISON AVENUE • COVINGTON, KENTUCKY 41011-2298

OFFICE OF THE CITY MANAGER

December 13, 2011

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, 2011.

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, 2011, 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, 2011, 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 40,640. 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 took 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 funds without the approval of the City Commissioners. Expenditures may not legally exceed budgeted appropriations at the fund level. Any revisions to the budget that would alter total revenues and total 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 58-60 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 61. 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 2012 Regional Economic Outlook published by the Northern Kentucky Chamber of Commerce, the recovery has been painfully slow. However, the Cincinnati metropolitan area is on pace to post an increase in gross regional product and the number of jobs. While the rate of growth will continue to be slow, economic growth is expected in 2012. The unemployment rate in the Cincinnati USA region has come down a bit over the past twelve months. It is expected to end the year at 9.1% and decline slightly to 8.7% in 2012 still quite high compared to the average unemployment rate of 4.4% during the decade prior to the recession. 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.

The City is heavily reliant on economically sensitive revenue. Occupational license fees (payroll tax and net profit taxes) represent 52.7% of all General Fund Revenue. For the second consecutive year, occupational license fees were less than the previous year. 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.

As part of the Kentucky Transportation Cabinet's reconstruction of Martin Luther King Jr. Blvd., the City was able to place all of the overhead utilities underground, install

new decorative street/pedestrian lighting, construct stamped concrete crosswalks, and place the traffic signals on new mast arm poles.

In cooperation with Northern Kentucky Sanitation District Number 1, a rain garden and interpretive park was constructed between Interstate 75 and James Simpson Jr. Way. This is the gateway to the St. Elizabeth project referenced above.

Financial Policies and Planning

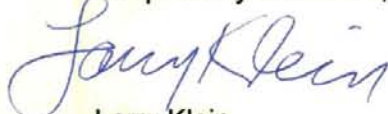
This report has been prepared in compliance with the requirements of Government Accounting Standards Board (GASB) No. 54. The goal of GASB 54 is to report governmental fund balances based on a hierarchy that shows from the highest to the lowest, the level or form of constraints on fund balances and, accordingly, the extent to which governments are bound to honor those constraints. GASB No. 54 also clarified the definition of a Special Revenue Fund. A Special Revenue Fund should not be reported unless one or more specific restricted or committed revenues are the foundation.

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, 2010. This was the eighteenth 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, 2010

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.



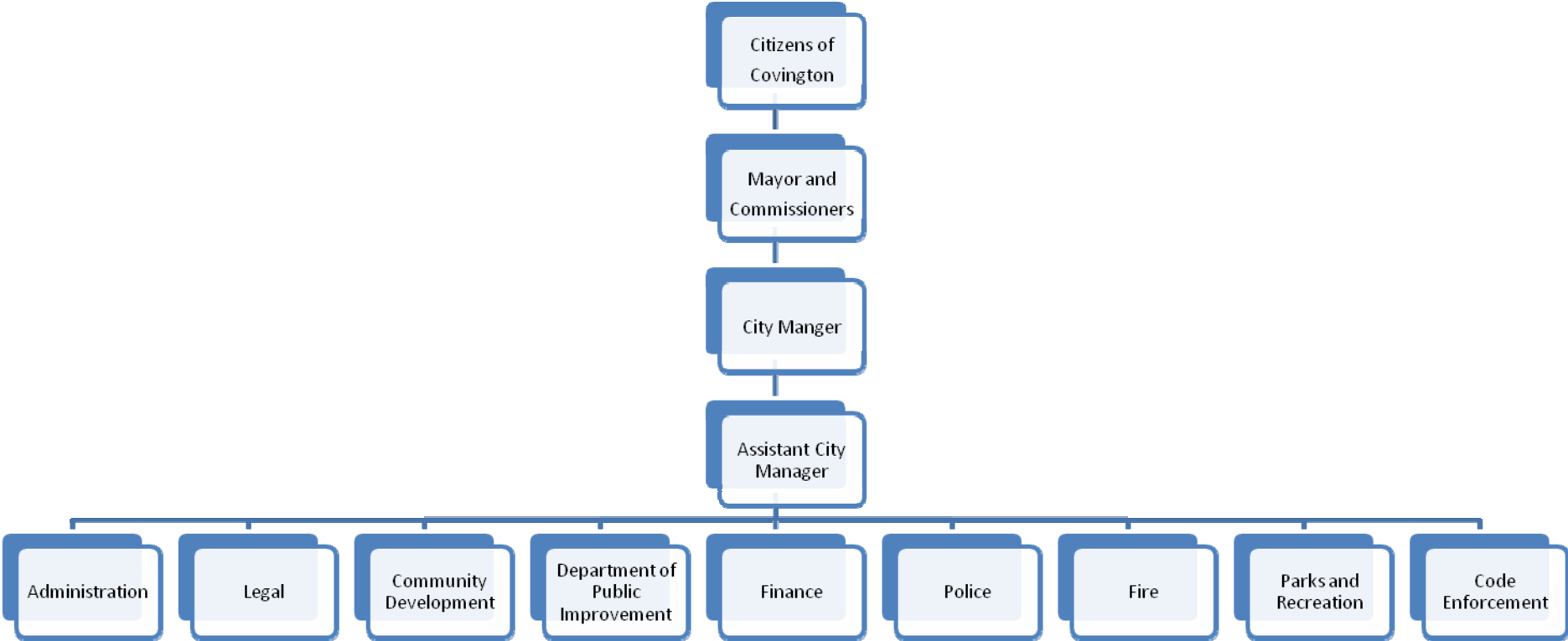
Linda C. Davison

President

Jeffrey R. Emer

Executive Director

**CITY OF COVINGTON, KENTUCKY
ORGANIZATIONAL CHART**



**CITY OF COVINGTON, KENTUCKY
LIST OF PRINCIPAL OFFICIALS
June 30, 2011**

MAYOR

Denny Bowman (Through September 30, 2011)
Chuck Scheper (Effective October 25, 2011)

COMMISSIONERS

Sherry Carran
Shawn Masters
Steve Casper
Steve Frank

STAFF

City Manager – Larry Klein
Assistant City Manager – Larisa Sims
City Solicitor – Frank Warnock
City Clerk – Maggie Nyhan
Finance Director – Robert J. Due
Chief of Police – Lee Russo
Fire Chief – Chuck Norris
Director of Public Improvements/City Engineer – Tom Logan
Community Development Director – Jackson Kinney
Director of Code Enforcement – Keith Bales
Recreation Director – Natalie Gardner

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, 2011, 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, 2011, 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 December 13, 2011, 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.

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 58 through 63 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's 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 schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by 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 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 records used to prepare the financial statements or to the financial statements themselves, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Kentucky's basic financial statements. The introductory 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 do not express an opinion or provide any assurance on it.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
December 13, 2011

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, 2011. 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.

This report was also published under the standards for the governmental financial reporting prescribed by the Governmental Accounting Standards Board in their Statement No. 54 (GASB 54). The GASB 54 model replaces the old reserved, unreserved, and designated fund balance classifications with five new possible classifications of fund balance including nonspendable, restricted, committed, assigned, and unassigned. GASB 54 also redefines special revenue funds. The City Hall Operation Fund, the Working Capital Reserve, the Capital Improvement Fund, the Newport Steel UDAG Fund, the KLC Series 2002 Fund, the Arts District Fund, the Property Acquisition Fund, and the 501 Main Street Operating Fund have ceased to exist as Special Revenue Funds and were rolled into General Fund.

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

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$47,944,685 (net assets), and represent a decrease of \$273,998 from the prior year. This amount includes \$36,088,303 that is invested in capital assets net of related debt. The remaining net assets are restricted for Capital Projects (\$1,577,223), HUD Programs (\$1,318,568), Police Incentive Program (\$3,321), and for Grant Programs (\$24,040). In the case of the Capital Project Funds, the Police Incentive Program Project, and the Grant Program restricted fund balances represent projects initiated in fiscal year 2011 and to be completed in fiscal year 2012.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$5,195,127, an increase of \$706,905 from the previous year. In implementing GASB Statement Number 54, the total combined fund balance of \$5,195,127 categorizes \$2,923,152 as restricted, \$255,605 as committed, \$1,345,041 as assigned, and \$671,329 as unassigned.

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.

The Statement of Net Assets presents information on all City assets and liabilities as of June 30, 2011. 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.

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

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 58. The non-major fund financial statements begin on page 64. 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, Devou Park Master Plan 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.

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, 2011, net assets changed as follows:

| | Governmental Activities <u>2011</u> | Governmental Activities <u>2010</u> | Governmental (Decrease) From FYE 10 |
|---|---|---|---|
| Current and Other Assets | \$ 30,702,886 | \$ 30,359,689 | \$ 343,197 |
| Capital Assets | 57,755,623 | 59,534,627 | (1,779,004) |
| Other Non Current Assets | <u>6,198,385</u> | <u>8,046,616</u> | <u>(1,848,231)</u> |
| Total Assets | <u>94,656,894</u> | <u>97,940,932</u> | <u>(3,284,038)</u> |
| Current Liabilities | 11,123,949 | 13,494,421 | (2,370,472) |
| Non-current Liabilities | <u>35,588,260</u> | <u>36,227,828</u> | <u>(639,568)</u> |
| Total Liabilities | <u>46,712,209</u> | <u>49,722,249</u> | <u>(3,010,040)</u> |
| Net Assets: | | | |
| Invested in Capital Assets, Net of Debt | 36,088,303 | 34,539,885 | 1,548,418 |
| Restricted for Capital | 1,577,223 | - | 1,577,223 |
| Restricted for HUD | 1,318,568 | - | 1,318,568 |
| Restricted for Police | 3,321 | - | 3,321 |
| Restricted for Grants | 24,040 | - | 24,040 |
| Restricted – Other | - | 91,138 | (91,138) |
| Unrestricted | <u>8,933,230</u> | <u>13,587,660</u> | <u>(4,654,430)</u> |
| Total Net Assets | <u>\$ 47,944,685</u> | <u>\$ 48,218,683</u> | <u>\$ (273,998)</u> |

The total assets of the City on June 30, 2011 were \$94.7 million, while total liabilities were \$46.7 million, resulting in net assets of \$47.9 million. The largest component of the City's net assets, \$36.1 million, or 75.4%, reflects its investment in capital assets. Specific restrictions of net assets have been captured in the 2011 Statement of Net Assets compared to the 2010 Statement. This categorization is consistent with guidelines contained in GASB Statement Number 54.

After a number of years of declining capital investment, fiscal year 2011 marked an initial step in addressing the long term infrastructure needs of the City.

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

Statement of Activities

| | Governmental Activities 2011 | Governmental Activities 2010 | Increase (Decrease) From 2010 |
|--|------------------------------------|------------------------------------|-------------------------------------|
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$ 6,091,457 | \$ 6,008,507 | \$ 82,950 |
| Operating grants and contributions | 13,533,951 | 10,727,972 | 2,805,979 |
| Capital grants | 2,558,805 | 1,624,312 | 934,493 |
| General revenues: | | | |
| Taxes | 40,174,583 | 40,338,234 | (163,651) |
| Interest | 47,503 | 25,094 | 22,409 |
| Other | 1,817,908 | 1,298,108 | 519,800 |
| Total revenues | <u>64,224,207</u> | <u>60,022,227</u> | <u>4,201,980</u> |
| Expenses: | | | |
| General government | 3,814,055 | 6,089,518 | (2,275,463) |
| Police | 16,536,402 | 16,498,516 | 37,886 |
| Fire | 15,318,421 | 15,048,966 | 269,455 |
| Public Improvements | 11,780,808 | 11,847,116 | (66,308) |
| Recreation | 734,672 | 796,215 | (61,543) |
| Housing and economic developmen | 13,771,124 | 12,484,045 | 1,287,079 |
| Parking Garage | 865,947 | 732,362 | 133,585 |
| Interest on long term debt | 1,676,776 | 1,716,153 | (39,377) |
| Total expenses | <u>64,498,205</u> | <u>65,212,891</u> | <u>(714,686)</u> |
| Increase in net assets before transfers and other expenses | (273,998) | (5,190,664) | 4,916,666 |
| Transfers | - | - | - |
| Other expenses | - | - | - |
| Increase in net assets | <u>(273,998)</u> | <u>(5,190,664)</u> | <u>4,916,666</u> |
| Net assets - July 1 | 48,218,683 | 53,409,347 | (5,190,664) |
| Net assets - June 30 | <u>\$ 47,944,685</u> | <u>\$ 48,218,683</u> | <u>\$ (273,998)</u> |

Revenues for the City's governmental activities were \$64,224,207, an increase of \$4,201,980 from the prior year. Taxes which include occupational license fees, property taxes, insurance premiums taxes, and net profit taxes decreased \$163,651 (.4%) and represent 2.6% of all revenue. Although the decrease was less than the previous year, it is significant that for the second consecutive year, revenue from taxes was less than the prior year which is unprecedented in the last 25 years. The general economic slowdown and jobless recovery has a profound impact on revenue stream which supports core governmental services.

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

Operating grants and contributions increased by \$2,805,979. Economic stimulus funds in the form of US Department of Housing and Urban Development Neighborhood Stabilization Program are 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 \$64.5 million, a 1.1% decrease from the prior year. In response to declining tax revenue, an on-going review of expenditures have resulted in cost savings.

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

Fund Financial Statements

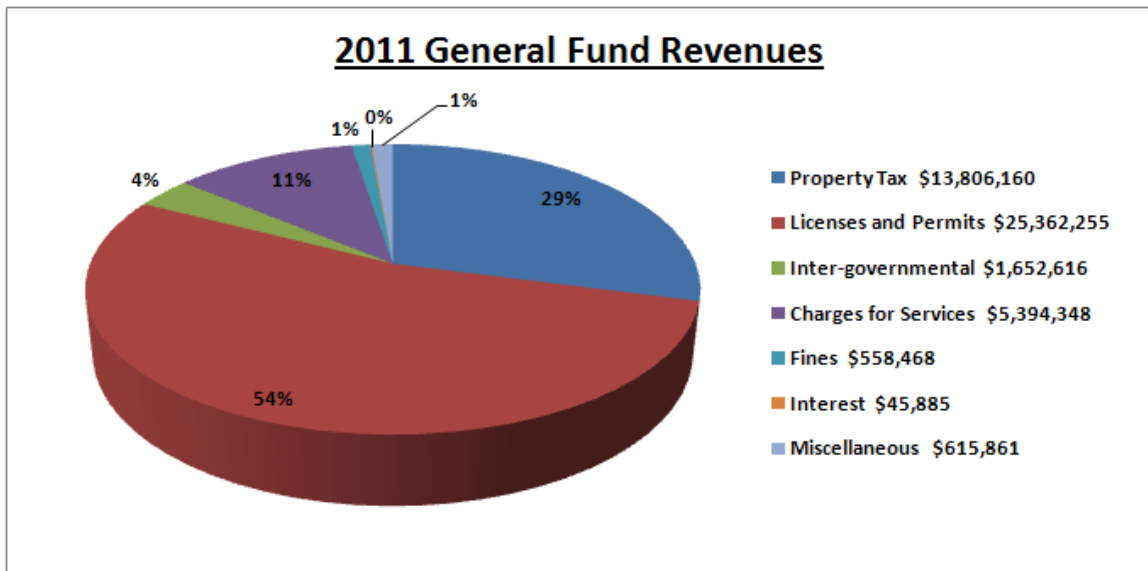
GENERAL FUND

The following schedules and charts present a summary of the General Fund revenues and expenditures for the fiscal year ended June 30, 2011, and the amount and percentage of increases and decreases in relation to the prior year.

| <u>Revenues</u> | <u>FYE 2011 Amount</u> | <u>Percent Of Total</u> | <u>Increase (Decrease) From FYE 2010</u> | <u>Percent Increase (Decrease)</u> |
|-----------------------|----------------------------|-----------------------------|--|--|
| Taxes | \$ 13,806,160 | 29.11% | \$ (388,182) | -3.22% |
| Licenses and permits | 25,362,255 | 53.47% | (67,521) | -0.32% |
| Inter-governmental | 1,652,616 | 3.48% | 1,039,753 | 110.35% |
| Fines and forfeitures | 558,465 | 1.18% | (187,857) | -39.24% |
| Charges for services | 5,394,348 | 11.37% | 457,270 | 12.68% |
| Interest | 45,885 | 0.10% | 44,532 | 284.17% |
| Miscellaneous | <u>615,861</u> | <u>1.30%</u> | <u>193,123</u> | <u>74.56%</u> |
| Total revenues | <u>\$ 47,435,590</u> | <u>100.00%</u> | <u>\$ 1,091,118</u> | <u>2.52%</u> |

Taxes which include real estate taxes, personal property taxes, and insurance premiums taxes decreased \$388,182. Total taxable assessed value increased \$23.2 million, or 1.1% to remain at 2.1 billion dollars.

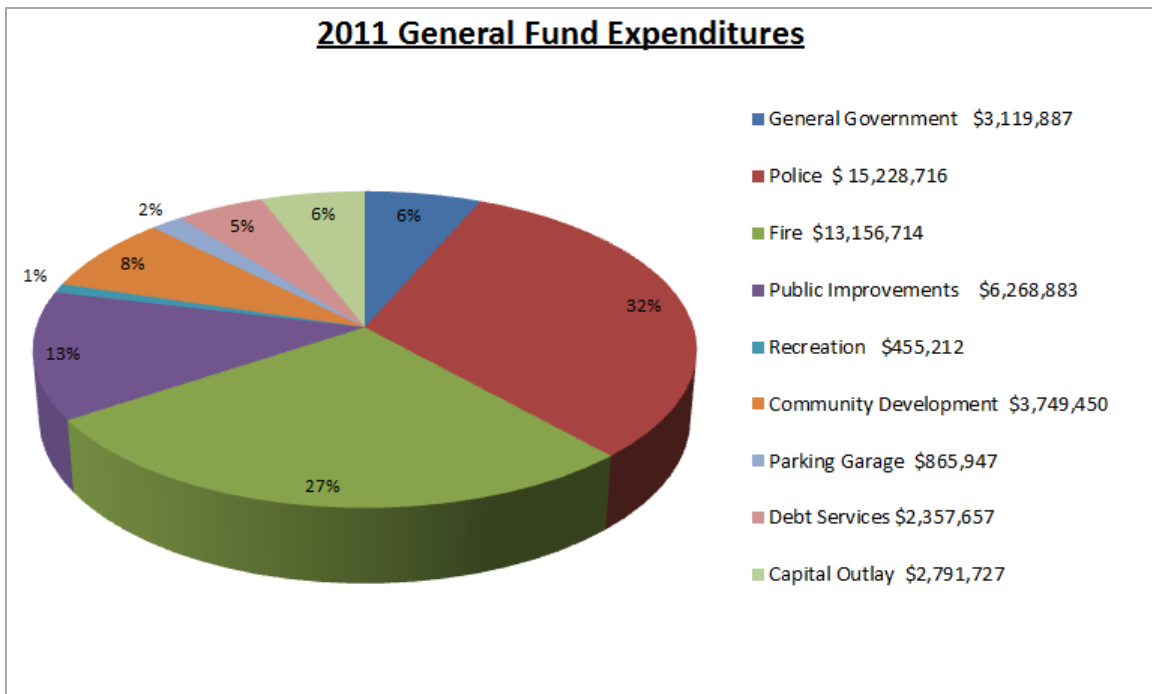
Occupational License revenue includes both a payroll occupational license fee and a net profit occupational license fee on businesses. Licenses and permits decreased \$67,521 or .4% from the prior fiscal year and are expected to remain flat into the next fiscal year. With health care costs and pension costs continuing to escalate, there will be increasing pressure to further reduce operating expenses.



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

Expenditures increased from the prior year by 10.32%, or \$4,038,598. Inclusion of capital outlay and debt service expense which in the past were reported as expense Special Revenue Funds accounts for the increase in General Fund expenses.

| <u>Expenditures</u> | <u>FYE 2011 Amount</u> | <u>Percent Of Total</u> | <u>Increase (Decrease) From FYE 2010</u> | <u>Percent Increase (Decrease)</u> |
|---------------------------|-----------------------------|-----------------------------|--|--|
| General government | \$ 3,119,887 | 6.49% | \$ 164,018 | 6.68% |
| Public safety | 28,445,430 | 59.19% | 108,516 | 0.53% |
| Public Improvements | 6,268,883 | 13.05% | (246,022) | -3.46% |
| Recreation | 455,212 | 0.95% | (49,097) | -6.66% |
| Community Development | 3,749,450 | 7.80% | 204,562 | 19.58% |
| Parking garage | 865,947 | 1.80% | 133,585 | 17.96% |
| Debt service | 2,357,657 | 4.91% | 1,644,483 | 357.72% |
| Capital outlay | <u>2,791,727</u> | <u>5.81%</u> | <u>2,791,727</u> | <u>607.29%</u> |
| Total expenditures | \$ <u>48,054,193</u> | <u>100.00%</u> | \$ <u>4,751,772</u> | <u>12.14%</u> |



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

Other Governmental Funds

The City's governmental funds reported a combined ending fund balance of \$5,195,127, an increase of \$706,905 from the previous year.

The current general fund Unassigned Fund Balance is \$698,391. When combined with the \$202,358 balance assigned for the 2012 budgeted deficit, the unassigned general fund balance is \$900,749, or 1.9% of General Fund operating expenses. The City Commission has adopted a policy establishing a goal of 5.0% of General Fund operating funds as a minimum fund balance retention policy. The Financial Recovery Plan that is currently being developed has targeted the reaching of the minimum fund balance goal as one of its primary goals.

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 increased \$2,499,929. The General Fund revenue budget was increased by \$1 million dollars. The adjustment authorized the use of prior year fund balance to absorb the net general fund operating loss.

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. It also reflected budget changes required by GASB Statement Number 54.

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

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt Administration

At year-end, the City had \$39,127,643 in outstanding notes, capital leases, bonds, and uncompensated absences compared to \$39,910,621 the prior year. The following is a summary of the changes in the City's outstanding long-term debt from fiscal year 2010 to fiscal year 2011.

| | Governmental Activities | |
|--|-------------------------|---------------|
| | 2011 | 2010 |
| Mortgage Bonds Payable (backed by city) | \$ 20,876,818 | \$ 20,300,563 |
| Note Payable (backed by city) | 412,531 | 510,031 |
| Capital Lease Obligations (backed by city) | 16,247,510 | 17,663,351 |
| Compensated Absences | 1,590,784 | 1,436,676 |
| Totals | \$ 39,127,643 | \$ 39,910,621 |

A General Obligation Bond was issued in the amount of \$315,000 to refund a variable rate lease purchase agreement dated November 7, 2000. Final maturity date remains February 1, 2015.

In addition, Taxable General Obligation Recovery Zone Economic Development Bonds were issued in the amount of \$2,650,000. The proceeds of the Bonds will be used for the purpose of financing internal garage repairs and plaza repairs for the RiverCenter garage. The RiverCenter garage is an 840 space parking structure. Built upon the garage are two office towers of a combined 550,000 square feet Class A office space and an Embassy Suites hotel. The repairs include structural repairs to the garage and plaza, sprinkler system replacement, and updated fee computers and equipment for the garage. The City will earn a rebate of 45% of interest costs through the Recovery Zone designation.

The Prisoner's Lake Rainwater Harvest Project which was initiated last fiscal year was completed during the current year. An additional \$156,827 was added to the principal amount borrowed in fiscal year 2010 for a total principal debt of \$1,200,000. The Kentucky Infrastructure Authority as part of the American Recovery and Reinvestment Act forgave \$623,840 of the loan upon completion of the project.

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 \$213 million.

Additional information on the City's long-term debt can be found on pages 46-50.

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

Capital Assets

The City's capital assets, net of depreciation as of June 30, 2011 totaled \$57,755,623, a decrease of \$1,779,004 from last year.

This year's major capital additions are as follows:

| | |
|---|--------------|
| RiverCenter plaza and garage Restoration | \$ 1,052,902 |
| Infrastructure including street resurfacing | 675,231 |
| Snow Removal Equipment | 293,430 |
| Fire Boat | 257,588 |
| New Street Lighting | 108,647 |
| Rainwater Harvest Project | 140,666 |

The following is a summary of changes in the City's capital assets from fiscal year 2010 to fiscal year 2011.

| | Governmental Activities | |
|------------------------------|------------------------------------|------------------------------|
| | <u>2011</u> | <u>2010</u> |
| Land | \$ 14,617,829 | \$ 14,621,581 |
| Land improvements | 1,427,370 | 1,396,212 |
| Building | 24,146,530 | 23,269,494 |
| Building Improvements | 9,962,263 | 8,797,199 |
| Vehicles | 10,933,659 | 10,436,047 |
| Other equipment | 4,927,527 | 4,802,071 |
| Public domain infrastructure | 110,886,873 | 108,745,173 |
| Construction in progress | - | 1,040,563 |
| TOTALS | \$ <u>176,902,051</u> | \$ <u>173,108,340</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 2011-2012 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 43.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget for the 2012 fiscal year was developed to structurally balance its operating budget while maintaining current levels of City services as much as possible. Over 20 positions were removed from the budget primarily through unfilled positions and retirements. The staff reduction also meant two individuals were laid off. Capital investment in public safety infrastructure and fleet was increased by \$1 million dollars. The City, however, continues to under fund its capital investment. Over the next five years an investment of \$47.2 million is required. A major part of the Financial Recovery will include a more aggressive and significant investment in the City's infrastructure. The City is however committed to a structurally balanced budget and will not permit further erosion of the General Fund balance.

The utilization of fund balance to offset the operating deficit from the 2011 fiscal year is a temporary measure to allow sufficient time to develop an appropriate Financial Recovery Plan. Unless significant concessions can be realized from the three collective bargaining units, a second round of layoffs may be necessary. An action plan is currently being developed to ensure financial stability and growth both in fiscal year 2012 but for the future.

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. The 2012 total property assessment for the City fell \$23.1 million, or 1.1%.

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

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.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF COVINGTON, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2011

| | Primary Government | Component Unit |
|---|------------------------------------|---------------------------------------|
| | Governmental Activities | Devou Properties, Inc. |
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 5,876,472 | \$ 1,834,581 |
| Receivables | | |
| Property Taxes | 1,023,837 | - |
| Intergovernmental | 1,179,352 | - |
| Notes | 16,743,945 | - |
| Accounts | 5,879,280 | 218,324 |
| Prepays | - | 4,037 |
| Total Current Assets | 30,702,886 | 2,056,942 |
| Noncurrent Assets | | |
| Deferred Charges, Net | 305,760 | - |
| Deferred Outflow - Hedges | 1,278,603 | - |
| Net Pension Obligation Asset | 4,614,022 | - |
| Land and Construction in Progress | 16,045,199 | - |
| Depreciable Capital Assets | 160,856,852 | 71,238 |
| Less Accumulated Depreciation | (119,146,428) | (21,697) |
| Total Noncurrent Assets | 63,954,008 | 49,541 |
| Total Assets | 94,656,894 | 2,106,483 |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable | 1,687,544 | 19,122 |
| Accrued Liabilities | 2,441,847 | 18,024 |
| Accrued Interest Payable | 230,644 | - |
| Due to Pension Trust Funds | 168,728 | - |
| Unearned Revenue | 1,589,776 | 289,641 |
| Line of Credit | 187,424 | - |
| Accumulated Compensated Absences | 1,590,784 | - |
| Current Portion of Capital Lease Obligations | 1,161,476 | - |
| Current Portion of Bonds and Notes Payable | 2,065,726 | - |
| Total Current Liabilities | 11,123,949 | 326,787 |
| Noncurrent Liabilities | | |
| Noncurrent Portion of Capital Lease Obligations | 15,086,034 | - |
| Noncurrent Portion of Bonds and Notes Payable | 19,223,623 | - |
| Derivative Instrument - Liability | 1,278,603 | - |
| Total Noncurrent Liabilities | 35,588,260 | - |
| Total Liabilities | 46,712,209 | 326,787 |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 36,088,303 | 49,541 |
| Restricted for Capital Projects | 1,577,223 | |
| Restricted for HUD Programs | 1,318,568 | |
| Restricted for Police Incentive | 3,321 | |
| Restricted for Grant Programs | 24,040 | - |
| Unrestricted | 8,933,230 | 1,730,155 |
| Total Net Assets | \$ 47,944,685 | \$ 1,779,696 |

See accompanying notes

CITY OF COVINGTON, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

| <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 | \$ 3,814,055 | \$ 968,682 | \$ 388,730 | \$ 1,762,452 | \$ (694,191) | |
| Police | 16,536,402 | 307,539 | 940,222 | 86,501 | (15,202,140) | |
| Fire | 15,318,421 | 1,175,621 | - | - | (14,142,800) | |
| Public Improvements | 11,780,808 | 2,082,635 | 430,622 | 709,852 | (8,557,699) | |
| Recreation | 734,672 | - | - | - | (734,672) | |
| Community Development | 13,771,124 | 98,196 | 11,774,377 | - | (1,898,551) | |
| Parking Garage | 865,947 | 1,458,784 | - | - | 592,837 | |
| Interest on Long-Term Debt | 1,676,776 | - | - | - | (1,676,776) | |
| Total Governmental Activities | <u>64,498,205</u> | <u>6,091,457</u> | <u>13,533,951</u> | <u>2,558,805</u> | <u>(42,313,992)</u> | |
| Total Primary Government | <u>\$ 64,498,205</u> | <u>\$ 6,091,457</u> | <u>\$ 13,533,951</u> | <u>\$ 2,558,805</u> | <u>(42,313,992)</u> | |
| Component Unit | | | | | | |
| Devou Properties, Inc. | <u>\$ 1,098,060</u> | <u>\$ 949,536</u> | <u>\$ -</u> | <u>\$ -</u> | | <u>\$ (148,524)</u> |
| General revenues: | | | | | | |
| Taxes | | | | | | |
| | | | | | 6,481,511 | - |
| | | | | | 516,905 | - |
| | | | | | 2,107,927 | - |
| | | | | | 71,391 | - |
| | | | | | 5,155,801 | - |
| | | | | | 22,595,598 | - |
| | | | | | 2,404,497 | - |
| | | | | | 840,953 | - |
| | | | | | 47,503 | 4,334 |
| | | | | | 1,817,908 | - |
| Total General Revenues | | | | | <u>42,039,994</u> | <u>4,334</u> |
| Change in Net Assets | | | | | (273,998) | (144,190) |
| Net Assets June 30, 2010 | | | | | <u>48,218,683</u> | <u>1,923,886</u> |
| Net Assets June 30, 2011 | | | | | <u>\$ 47,944,685</u> | <u>\$ 1,779,696</u> |

See accompanying notes

FUND FINANCIAL STATEMENTS

**CITY OF COVINGTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

| | <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> |
|--|----------------------|--|-------------------------|--|---|---|
| Assets | | | | | | |
| Cash and Cash Equivalents | \$ 3,876,372 | \$ - | \$ 58 | \$ 1,272,487 | \$ 689,105 | \$ 5,838,022 |
| Receivables | | | | | | |
| Taxes | 1,023,837 | - | - | - | - | 1,023,837 |
| Intergovernmental | - | 342,122 | 34,132 | 62,512 | 740,585 | 1,179,351 |
| Notes | 2,226,485 | 6,194,577 | 5,852,306 | - | 2,470,577 | 16,743,945 |
| Accounts | 5,573,663 | - | - | 20,257 | 99,010 | 5,692,930 |
| Due from Other Funds | 1,206,379 | 380,443 | 116,118 | - | 260,272 | 1,963,212 |
| Total Assets | <u>\$ 13,906,736</u> | <u>\$ 6,917,142</u> | <u>\$ 6,002,614</u> | <u>\$ 1,355,256</u> | <u>\$ 4,259,549</u> | <u>\$ 32,441,297</u> |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts Payable | \$ 1,240,119 | \$ 60,269 | \$ 7,900 | \$ 2,765 | \$ 295,230 | \$ 1,606,283 |
| Accrued Liabilities | 1,603,887 | - | - | - | - | 1,603,887 |
| Due to Other Funds | 1,956,550 | 8,444 | 13,225 | 57,702 | 988,581 | 3,024,502 |
| Deferred Revenue | 5,485,525 | 6,848,429 | 5,852,306 | 105,404 | 2,719,834 | 21,011,498 |
| Total Liabilities | <u>10,286,081</u> | <u>6,917,142</u> | <u>5,873,431</u> | <u>165,871</u> | <u>4,003,645</u> | <u>27,246,170</u> |
| Fund Balances | | | | | | |
| Restricted for: | | | | | | |
| Capital Projects | 1,577,223 | - | - | - | - | 1,577,223 |
| HUD Programs | - | - | 129,183 | 1,189,385 | - | 1,318,568 |
| Police Incentive | - | - | - | - | 3,321 | 3,321 |
| Grant Programs | - | - | - | - | 24,040 | 24,040 |
| Committed for: | | | | | | |
| Devou Park Maintenance | - | - | - | - | 12,064 | 12,064 |
| Police | - | - | - | - | 119,051 | 119,051 |
| CAD System | - | - | - | - | 10,523 | 10,523 |
| Debt Service | - | - | - | - | 113,967 | 113,967 |
| Assigned for: | | | | | | |
| Community Development | 884,282 | - | - | - | - | 884,282 |
| Budget Deficit | 202,358 | - | - | - | - | 202,358 |
| City Building Operations | 73,211 | - | - | - | - | 73,211 |
| Capital Projects | 185,190 | - | - | - | - | 185,190 |
| Unassigned | 698,391 | - | - | - | (27,062) | 671,329 |
| Total Fund Balances | <u>3,620,655</u> | <u>-</u> | <u>129,183</u> | <u>1,189,385</u> | <u>255,904</u> | <u>5,195,127</u> |
| Total Liabilities and Fund Balances | <u>\$ 13,906,736</u> | <u>\$ 6,917,142</u> | <u>\$ 6,002,614</u> | <u>\$ 1,355,256</u> | <u>\$ 4,259,549</u> | <u>\$ 32,441,297</u> |

See accompanying notes

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

Total Fund Balance - Governmental Funds \$ 5,195,127

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 | \$ 176,902,051 | |
| Accumulated Depreciation | (119,146,428) | |
| | | 57,755,623 |

Certain other long-term assets are not available to pay current period expenditures and are therefore deferred in the funds. 19,421,723

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 | 38,450 | |
| Accounts Receivable | 186,350 | |
| Due From Other Funds | 1,167,283 | |
| Accounts Payable | (81,261) | |
| Estimated Liability for Claims | (837,960) | |
| Due to Other Funds | (274,721) | |
| | | 198,141 |

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. 305,760

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. 4,614,022

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. (230,644)

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 | 21,289,349 | |
| Capital Lease Obligations Payable | 16,247,510 | |
| Compensated Absences Payable | 1,590,784 | |
| | | (39,127,643) |

Total Net Assets - Governmental Activities **\$ 47,944,685**

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

| | General Fund | Community Development Block Grant | HOME Program | Housing Voucher Program | Non-Major Governmental Funds | Total Governmental Funds |
|---|---------------------|---|-------------------|-------------------------------|------------------------------------|--------------------------------|
| Revenues | | | | | | |
| Taxes | \$ 13,806,160 | \$ - | \$ - | \$ - | \$ 836,974 | \$ 14,643,134 |
| Licenses and Permits | 25,362,255 | - | - | - | - | 25,362,255 |
| Intergovernmental | 1,652,616 | 1,784,112 | 445,399 | 6,722,004 | 3,080,111 | 13,684,242 |
| Charges for Services | 5,394,348 | - | - | - | - | 5,394,348 |
| Fines and Forfeitures | 558,465 | - | - | - | - | 558,465 |
| Investment Earnings | 45,885 | - | 102 | 695 | 562 | 47,244 |
| Miscellaneous | 615,861 | 510,738 | 256,056 | 9,896 | 612,369 | 2,004,920 |
| Total Revenues | 47,435,590 | 2,294,850 | 701,557 | 6,732,595 | 4,530,016 | 61,694,608 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General Government | 3,119,887 | - | - | - | 1,195,762 | 4,315,649 |
| Police | 15,288,716 | - | - | - | 625,162 | 15,913,878 |
| Fire | 13,156,714 | - | - | - | 473,345 | 13,630,059 |
| Public Improvements | 6,268,883 | - | - | - | - | 6,268,883 |
| Recreation | 455,212 | - | - | - | - | 455,212 |
| Community | | | | | | |
| Development | 3,749,450 | 1,168,375 | 695,796 | 6,411,229 | 1,050,415 | 13,075,265 |
| Parking Garages | 865,947 | - | - | - | - | 865,947 |
| Debt Service | | | | | | |
| Principal | 1,584,379 | 67,000 | - | - | 1,480,000 | 3,131,379 |
| Interest and Other Charges | 773,278 | 21,915 | - | - | 708,292 | 1,503,485 |
| Capital Outlay | 2,791,727 | 720,560 | 77,481 | - | 710,334 | 4,300,102 |
| Total Expenditures | 48,054,193 | 1,977,850 | 773,277 | 6,411,229 | 6,243,310 | 63,459,859 |
| Excess (Deficit) of Revenues Over Expenditures | (618,603) | 317,000 | (71,720) | 321,366 | (1,713,294) | (1,765,251) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers In | 1,172,469 | - | - | - | 2,392,925 | 3,565,394 |
| Proceeds from Sale of Capital Assets | 13,647 | - | - | - | - | 13,647 |
| Proceeds from Issuance of Debt | 2,806,827 | - | - | - | - | 2,806,827 |
| Proceeds from Bond Refinancing | 315,000 | - | - | - | - | 315,000 |
| Payment to Refunded Lease Escrow Agent | (303,694) | - | - | - | - | (303,694) |
| Bond Issuance Costs | (59,623) | - | - | - | - | (59,623) |
| Transfers Out | (2,692,926) | (317,000) | - | - | (855,469) | (3,865,395) |
| Total Other Financing Sources (Uses) | 1,251,700 | (317,000) | - | - | 1,537,456 | 2,472,156 |
| Net Change in Fund Balances | 633,097 | - | (71,720) | 321,366 | (175,838) | 706,905 |
| Fund Balance July 1, 2011, As Restated | 2,987,558 | - | 200,903 | 868,019 | 431,742 | 4,488,222 |
| Fund Balance June 30, 2011 | \$ 3,620,655 | \$ - | \$ 129,183 | \$ 1,189,385 | \$ 255,904 | \$ 5,195,127 |

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, 2011**

Change in Fund Balances - Total Governmental Funds \$ 706,905

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 | \$ (5,913,575) | |
| Capital Outlays | <u>4,138,053</u> | (1,775,522) |

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. (3,482)

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. 2,069,548

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. 3,435,073

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. (1,740,327)

Accrued interest not reflected on Governmental funds. (113,123)

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. (154,108)

Some capital additions were financed through bond issuances. In governmental funds, a bond issuance is considered a source of financing, but in the Statement of Net Assets, the bond obligation is reported as a liability. (3,121,827)

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.

| | | |
|----------------------|-----------------|-------|
| Issuance Costs | 59,623 | |
| Amortization Expense | <u>(56,180)</u> | 3,443 |

Debt amounts forgiven are not recorded in the governmental fund statements, however these amount are recoded as revenue in the government-wide statements. 623,840

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. (204,418)

Total Change in Net Assets - Governmental Activities \$ (273,998)

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

| | | <u>Governmental Activities</u> |
|--------------------------------|----|---------------------------------------|
| | | <u>Internal Service Funds</u> |
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ | 38,450 |
| Accounts Receivable | | 186,350 |
| Due from Other Funds | | <u>1,167,283</u> |
| Total Assets | | <u>1,392,083</u> |
| Liabilities | | |
| Current Liabilities | | |
| Accounts Payable | | 81,261 |
| Estimated Liability for Claims | | 837,960 |
| Due to Other Funds | | <u>274,721</u> |
| Total Liabilities | | <u>1,193,942</u> |
| Net Assets | | |
| Unrestricted | \$ | <u><u>198,141</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, 2011

| | Governmental Activities <hr/> Internal Service Funds <hr/> |
|---------------------------------|--|
| Operating Revenues | |
| Insurance Premium Payments | \$ 6,686,432 |
| Other Operating Revenues | <u>287,187</u> |
| Total Operating Revenues | <u>6,973,619</u> |
| Operating Expenses | |
| Contractual Services | 832,359 |
| Claims and Judgments | <u>6,645,941</u> |
| Total Operating Expenses | <u>7,478,300</u> |
| Operating Loss | (504,681) |
| Non-Operating Revenues | |
| Investment Income | <u>263</u> |
| Loss Before Transfers | (504,418) |
| Transfers In | <u>300,000</u> |
| Change in Net Assets | (204,418) |
| Net Assets July 1, 2010 | <u>402,559</u> |
| Net Assets June 30, 2011 | <u><u>\$ 198,141</u></u> |

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2011

| | <u>Governmental Activities Internal Service Funds</u> |
|--|--|
| Cash Flows From Operating Activities | |
| Cash Received from Other Funds | \$ 6,168,777 |
| Cash Received from Other Activities | 287,187 |
| Cash Paid for Claims | <u>(8,187,989)</u> |
| Net Cash Used by Operating Activities | (1,732,025) |
| Cash Flows from Non-Capital Financing Activities | |
| Transfer from Other Funds | (228,476) |
| Cash Flows from Investing Activities | |
| Interest Income | <u>263</u> |
| Net Change in Cash | (1,960,238) |
| Cash and Cash Equivalents July 1, 2010 | <u>1,998,688</u> |
| Cash and Cash Equivalents June 30, 2011 | <u><u>\$ 38,450</u></u> |
| Reconciliation of Operating Loss to Net Cash Used by Operating Activities | |
| Operating Loss | \$ (504,681) |
| Change in Assets and Liabilities | |
| Accounts Receivable | (109,294) |
| Due from Other Funds | (188,807) |
| Accounts Payable | 71,986 |
| Estimated Liability Claims | (856,396) |
| Due to Other Funds | <u>(144,833)</u> |
| Net Cash Used by Operating Activities | <u><u>\$ (1,732,025)</u></u> |

See accompanying notes.

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

| | Fiduciary Funds | | |
|------------------------------------|----------------------------------|---|-----------------------|
| | Employees' Retirement | Police and Firemen's Pension | Totals |
| Assets | | | |
| Cash and Cash Equivalents | \$ 286,277 | \$ 1,319,772 | \$ 1,606,049 |
| Investments - Mutual Funds | 3,677,222 | 8,124,223 | 11,801,445 |
| Due from Other Funds | 38,671 | 130,057 | 168,728 |
| Total Assets | <u>4,002,170</u> | <u>9,574,052</u> | <u>13,576,222</u> |
| Liabilities | | | |
| Accounts Payable | <u>-</u> | <u>150</u> | <u>150</u> |
| Net Assets | | | |
| Held in Trust for Pension Benefits | <u>\$ 4,002,170</u> | <u>\$ 9,573,902</u> | <u>\$ 13,576,072</u> |

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2011

| | Fiduciary Funds | | |
|--|----------------------------------|---|----------------------|
| | Employees' Retirement | Police and Firemen's Pension | Totals |
| Additions | | | |
| Contributions | | | |
| Employee Contributions | \$ 8,449 | \$ - | \$ 8,449 |
| Impounding Lot | - | 96,821 | 96,821 |
| Total Revenues | <u>8,449</u> | <u>96,821</u> | <u>105,270</u> |
| Investment Earnings | | | |
| Interest and Dividends | 163,492 | 393,269 | 556,761 |
| Net Appreciation in Fair Value of Investments | <u>636,316</u> | <u>1,588,386</u> | <u>2,224,702</u> |
| Total Investment Earnings | <u>799,808</u> | <u>1,981,655</u> | <u>2,781,463</u> |
| Total Additions | <u>808,257</u> | <u>2,078,476</u> | <u>2,886,733</u> |
| Deductions | | | |
| Benefit Payments | 582,343 | 1,579,234 | 2,161,577 |
| Administration | 42,301 | 41,916 | 84,217 |
| Impounding Lot | - | - | 0 |
| Total Deductions | <u>624,644</u> | <u>1,621,150</u> | <u>2,245,794</u> |
| Change in Net Assets | 183,613 | 457,326 | 640,939 |
| Net Assets July 1, 2010 | <u>3,818,557</u> | <u>9,116,576</u> | <u>12,935,133</u> |
| Net Assets June 30, 2011 | <u>\$ 4,002,170</u> | <u>\$ 9,573,902</u> | <u>\$ 13,576,072</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, 2010 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 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.

In addition, the City reports the following non-major governmental funds:

Special Revenue Funds

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.
- 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.
- 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.

Debt Service Funds

- 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.

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, 2011 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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".

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011 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.

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:

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|------------------------------|--|
| 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)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.

In the governmental fund financial statements, fund balances are classified as follows:

- Non-spendable – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Commission ordinance or resolution.
- Assigned – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by City Commission.
- Unassigned – All amounts not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess of Expenditures over Appropriations

The following funds had expenditures in excess of legally adopted appropriations for the year ended June 30, 2011:

| | <u>Budget</u> | <u>Actual</u> |
|------------------------------|---------------|---------------|
| Devou Park Maintenance | \$ 160,000 | \$ 170,149 |
| Liability Insurance | \$ 500,000 | \$ 517,684 |
| Medical and Dental Insurance | \$ 6,404,957 | \$ 6,960,616 |

Fund Balance Deficit

The following non-major governmental fund had a deficit fund balance as of June 30, 2011:

| | <u>Fund Balance</u> |
|----------------------------|---------------------|
| 2005 – Refunding Bond Fund | \$ <u>(27,062)</u> |

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, 2011, \$250,000 of the City's deposits are insured by the FDIC, and \$5,754,169 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, 2011, the City did not have any deposits in excess of insured and/or collateralized amounts.

As of December 31, 2010, Devou Properties, Inc. (a component unit of the City) had \$1,588,879 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, 2011, 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 not 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, 2011, the City had \$5,754,169 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, 2011 was as follows:

| | Balance Beginning of Year | Additions | Retirements/ Deletions | Balance End of Year |
|---|---------------------------------|---------------------|---------------------------|---------------------------|
| <u>Governmental Activities</u> | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 14,621,581 | \$ - | \$ 3,752 | \$ 14,617,829 |
| Land Improvements | 1,396,212 | 31,158 | - | 1,427,370 |
| Construction in Progress | 1,040,563 | - | 1,040,563 | - |
| Total Capital Assets Not Being Depreciated | <u>17,058,356</u> | <u>31,158</u> | <u>1,044,315</u> | <u>16,045,199</u> |
| Depreciable Capital Assets | | | | |
| Buildings | 23,269,494 | 877,036 | - | 24,146,530 |
| Building Improvements | 8,797,199 | 1,165,064 | - | 9,962,263 |
| Infrastructure | 108,745,173 | 2,141,700 | - | 110,886,873 |
| Machinery and Equipment | 4,802,071 | 146,259 | 20,803 | 4,927,527 |
| Vehicles | 10,436,047 | 817,399 | 319,787 | 10,933,659 |
| Total Depreciable Capital Assets | <u>156,049,984</u> | <u>5,147,458</u> | <u>340,590</u> | <u>160,856,852</u> |
| Less: Accumulated Depreciation | | | | |
| Buildings | 8,912,424 | 583,203 | - | 9,495,627 |
| Building Improvements | 8,183,066 | 197,649 | - | 8,380,715 |
| Infrastructure | 82,976,661 | 4,251,201 | - | 87,227,862 |
| Machinery and Equipment | 4,099,223 | 133,135 | 20,803 | 4,211,555 |
| Vehicles | 9,402,339 | 748,387 | 320,057 | 9,830,669 |
| Total Accumulated Depreciation | <u>113,573,713</u> | <u>5,913,575</u> | <u>340,860</u> | <u>119,146,428</u> |
| Depreciable Capital Assets, Net | <u>42,476,271</u> | <u>(766,117)</u> | <u>(270)</u> | <u>41,710,424</u> |
| Total Governmental Activities Capital Assets - Net | <u>\$ 59,534,627</u> | <u>\$ (734,959)</u> | <u>\$ 1,044,045</u> | <u>\$ 57,755,623</u> |
| <u>Component Unit</u> | | | | |
| Devou Properties, Inc. | | | | |
| Depreciable Capital Assets Property and Equipment | \$ 17,184 | \$ 54,054 | \$ - | \$ 71,238 |
| Less: Accumulated Depreciation Property and Equipment | <u>13,818</u> | <u>7,879</u> | <u>-</u> | <u>21,697</u> |
| Total Component Unit Capital Assets - Net | <u>\$ 3,366</u> | <u>\$ 46,175</u> | <u>\$ -</u> | <u>\$ 49,541</u> |

*Depreciation was charged to functions as follows:

| | |
|--|---------------------|
| Governmental Activities Administration | \$ 147,820 |
| Police | 277,516 |
| Fire | 419,587 |
| General Services | 4,808,339 |
| Parks and Recreation | <u>260,313</u> |
| Total Governmental Activities Depreciation Expense | <u>\$ 5,913,575</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, 2011:

Due From/To Other Funds:

| Receivable Fund | Payable Fund | Amount |
|------------------------------|------------------------------------|---------------------|
| General Fund | CDBG | \$ 8,444 |
| | HOME Program | 421 |
| | Housing Voucher Program | 57,702 |
| | Police and Fire Incentive | 85,252 |
| | Devou Park Maintenance | 68,559 |
| | Federal and State Grant | 145,213 |
| | Renaissance Grant | 103,431 |
| | Home Consortium | 21,279 |
| | Neighborhood Stabilization Program | 275,644 |
| | 2004 Pension Obligation | 128,045 |
| | 2005 Refunding Bonds | 37,668 |
| | Liability Insurance | 274,721 |
| | | <u>1,206,379</u> |
| CDBG | General Fund | 380,443 |
| HOME Program | General Fund | 89,013 |
| | HOME Consortium | 27,105 |
| | | <u>116,118</u> |
| Devou Park Master Plan | General Fund | 5,126 |
| Federal and State Grant | CAD System | 96,386 |
| | General Fund | 35,873 |
| | | <u>132,259</u> |
| CAD System | General Fund | 106,013 |
| HOME Consortium Fund | HOME Program | 12,804 |
| Employees' Retirement | General Fund | 38,671 |
| Police and Firemen's Pension | General Fund | 130,057 |
| Liability Insurance | General Fund | 528,476 |
| Police Forfeiture | General Fund | 4,070 |
| Medical and Dental Insurance | General Fund | 638,807 |
| | | <u>638,807</u> |
| | | <u>\$ 3,299,223</u> |

NOTE 5 - INTERFUND ACTIVITY (Continued)

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.

| Transfer From | Transfer To | Amount |
|--------------------------|----------------------------------|---------------------|
| General Fund | Devou Park Maintenance | \$ 121,901 |
| | 2004 Pension Obligation Bonds | 1,121,933 |
| | 2005 Refunding Bonds | 1,149,092 |
| | Liability Insurance | <u>300,000</u> |
| | Total Transfer From General Fund | 2,692,926 |
| CDBG | General Fund | 317,000 |
| Devou Park Maintenance | General Fund | 31,213 |
| Federal and State Grants | General Fund | 256 |
| CAD System | General Fund | <u>824,000</u> |
| | | <u>\$ 3,865,395</u> |

NOTE 6 - SHORT TERM DEBT

On July 1, 2010 the city issued a Tax and Revenue Anticipation Note in the amount of \$3,500,000 for the purpose of providing working capital in advance of tax and revenue cash flows. This note carried a fixed interest rate of 1.24% and matured on June 30, 2011 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, 2011 and had an outstanding balance at June 30, 2011 of \$187,424. Subsequent to year end, this line of credit was renewed for an additional one year period at an interest rate of 5.50%.

During the year ended June 30, 2011, the following changes occurred in the City's short term debt:

| <u>Debt Issue</u> | <u>Balance July 1, 2010</u> | <u>Issued</u> | <u>Redeemed</u> | <u>Balance June 30, 2010</u> |
|-------------------|---------------------------------|---------------------|---------------------|----------------------------------|
| TRAN | \$ - | \$ 3,500,000 | \$ 3,500,000 | \$ - |
| Line of Credit | 187,424 | - | - | 187,424 |
| | <u>\$ 187,424</u> | <u>\$ 3,500,000</u> | <u>\$ 3,500,000</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, 2011.

| | <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>3,655,096</u> |
| Net Book Value | <u>\$ 16,291,367</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, 2011.

| Fiscal Years Ending June 30, | Amount |
|---|----------------------|
| 2012 | \$ 1,791,345 |
| 2013 | 1,829,659 |
| 2014 | 1,825,983 |
| 2015 | 1,829,907 |
| 2016 | 1,741,511 |
| 2017-2021 | 7,295,777 |
| 2022-2026 | 3,646,172 |
| 2027-2031 | <u>316,064</u> |
| Total Minimum Lease Payments | 20,276,418 |
| Less: Amount Representing Interest | <u>(4,028,908)</u> |
| Present Value of Future Minimum Lease Payments | 16,247,510 |
| Less Current Portion | <u>1,161,476</u> |
| Non Current Portion | <u>\$ 15,086,034</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, 2011 is as follows:

| | |
|----------------------|--------------|
| Cost | \$ 1,500,000 |
| Carrying Amount | \$ 1,183,333 |
| Current Depreciation | \$ 50,000 |

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, 2011.

| | Purpose | Interest Rates | Maturity Dates June 30, | Amounts | |
|----------------------------------|-------------------|----------------|----------------------------|--------------|--------------|
| | | | | Issued | Outstanding |
| Mortgage Bonds | | | | | |
| 2003 Series | Refunding | 2.00-4.50 % | 2018 | \$ 4,996,000 | \$ 2,775,000 |
| KY Infrastructure Auth. | Infrastructure | 4.55 | 2014 | 460,327 | 82,531 |
| HUD 108 | Building Project | 5.13 | 2015 | 1,000,000 | 330,000 |
| 2004 Series | Pension Funding | Variable | 2030 | 14,410,000 | 12,365,000 |
| 2005 Series | Refunding | 3.00-3.30 | 2013 | 7,405,000 | 2,300,000 |
| KY Infrastructure Auth. | Rainwater Project | 2.00 | 2030 | 1,197,390 | 561,818 |
| KY Bond Corp 2010 Series A | Refinance | 2.00 | 2030 | 315,000 | 225,000 |
| Recovery Zone Economic Dev Bonds | River Center | 4.90-7.00 | 2030 | 2,650,000 | 2,650,000 |

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 0.192% June 30, 2011.

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, 2011 are as follows:

| Fiscal Years Ending June 30, | Principal | Interest | Total |
|------------------------------------|----------------------|---------------------|----------------------|
| 2012 | \$ 2,065,726 | \$ 930,493 | \$ 2,996,219 |
| 2013 | 2,146,757 | 838,720 | 2,985,477 |
| 2014 | 1,122,031 | 773,904 | 1,895,935 |
| 2015 | 1,114,200 | 724,903 | 1,839,103 |
| 2016 | 1,112,791 | 691,540 | 1,804,331 |
| 2017 - 2021 | 4,526,944 | 2,744,989 | 7,271,933 |
| 2022 - 2026 | 4,541,271 | 1,709,599 | 6,250,870 |
| 2027 - 2031 | <u>4,659,629</u> | <u>503,399</u> | <u>5,163,028</u> |
| Totals | \$ <u>21,289,349</u> | \$ <u>8,917,547</u> | \$ <u>30,206,896</u> |

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.

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

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 \$(1,278,603) as of June 30, 2011. 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, 2011, 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, 2011.

Swap Payments and Associated Debt. For the year ended June 30, 2011, the City did not receive any payments from the agreement. Using rates as of June 30, 2011, 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 | | |
| 2012 | \$ 405,000 | \$ 21,537 | \$ 533,073 | \$ 959,610 |
| 2013 | 425,000 | 22,596 | 513,090 | 960,686 |
| 2014 | 445,000 | 21,760 | 494,090 | 960,850 |
| 2015 | 470,000 | 20,880 | 474,108 | 964,988 |
| 2016 | 490,000 | 19,956 | 453,144 | 963,100 |
| 2017 - 2021 | 2,855,000 | 84,254 | 1,913,140 | 4,852,394 |
| 2022 - 2026 | 3,640,000 | 53,146 | 1,206,782 | 4,899,928 |
| 2027 - 2031 | 3,635,000 | 14,402 | 327,028 | 3,976,430 |
| Totals | <u>\$ 12,365,000</u> | <u>\$ 258,531</u> | <u>\$ 5,914,455</u> | <u>\$ 18,537,986</u> |

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, 2011, there were four series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$61.2 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 \$186,055 at June 30, 2011 and is a designation of the Liability Self Insurance Fund retained earnings. The claims liability reported in the Fund at June 30, 2011, 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, 2009</u> | <u>Claims and Changes In Estimates</u> | <u>Claims Payments</u> | <u>June 30, 2010</u> | <u>Claims and Changes In Estimates</u> | <u>Claims Payments</u> | <u>June 30, 2011</u> |
|-------------------------|--|----------------------------|--------------------------|--|----------------------------|--------------------------|
| \$ - | \$ 917,918 | \$ 97,095 | \$ 820,823 | \$ 269,930 | \$ 1,090,753 | \$ - |

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 \$837,960 reported in the fund at June 30, 2011, 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, 2011 were as follows:

| <u>July 1, 2009</u> | <u>Claims and Changes In Estimates</u> | <u>Claims Payments</u> | <u>June 30, 2010</u> | <u>Claims and Changes In Estimates</u> | <u>Claims Payments</u> | <u>June 30, 2011</u> |
|-------------------------|--|----------------------------|--------------------------|--|----------------------------|--------------------------|
| \$ 1,287,680 | \$ 5,816,422 | \$ 6,230,569 | \$ 873,533 | \$ 6,376,011 | \$ 6,411,584 | \$ 837,960 |

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.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

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 Investments. 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, 2011</u> | <u>Police and Firemen’s July 1, 2011</u> |
|---|------------------------------------|--|
| Retirees and Beneficiaries Currently Receiving Benefits | 50 | 82 |
| Active Employees – Fully Vested | <u>2</u> | <u>-</u> |
| | <u>52</u> | <u>82</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. Contribution requirements of the plan members and the City are established and may be amended by City ordinance. Administrative costs are financed through investment earnings.

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.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

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 |
| 2011 | \$ 304,163 | \$ - | - % | \$ 342,169 | \$ - | - % |
| 2010 | 304,163 | - | - | 396,747 | - | - |
| 2009 | - | - | - | - | - | - |

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, 2011, 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] |
|--|--|---|------------------------------------|--------------------------|---------------------------|---|
| <u>Employees' Pension Plan</u> | | | | | | |
| 2011 | \$ 4,002,169 | \$ 5,363,292 | \$ 1,361,123 | 75 % | \$ 105,615 | 1289 % |
| 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 |
| <u>Police & Firemen's Pension Plan</u> | | | | | | |
| 2011 | \$ 9,573,902 | \$ 11,003,692 | \$ 1,429,790 | 87 % | \$ N/A | N/A % |
| 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 |

An actuarial valuation report was not prepared as of July 1, 2008 or July 1, 2010 for the Employees' 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 | \$ 342,169 |
| Interest on Net Pension Obligation | (145,495) | (331,081) |
| Adjustment to ARC | <u>479,483</u> | <u>1,091,088</u> |
| Annual Pension Cost | 638,151 | 1,102,176 |
| Actual Contributions Made | <u>-</u> | <u>-</u> |
| Increase (Decrease) in Net Pension Obligation | 638,151 | 1,102,176 |
| Net Pension Obligation (Asset) – Beginning of Year | <u>(1,939,935)</u> | <u>(4,414,414)</u> |
| Net Pension Obligation (Asset) – End of Year | <u>\$(1,301,784)</u> | <u>\$(3,312,238)</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> | | | | |
| 06/30/11 | \$ 638,151 | - % | \$ 638,151 | \$(1,301,784) |
| 06/30/10 | 663,563 | - | 663,562 | (1,939,935) |
| 06/30/09 | 334,325 | - | 334,325 | (2,603,497) |
| <u>Police & Firemen's Pension Plan</u> | | | | |
| 06/30/11 | \$ 1,102,176 | - % | \$ 1,102,176 | \$(3,312,238) |
| 06/30/10 | 1,167,270 | - | 1,167,270 | (4,414,414) |
| 06/30/09 | 716,765 | - | 716,765 | (5,581,684) |

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 entry age or 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, 2011 | July 1, 2011 |
| Actuarial Cost Method | Entry Age | Unit Credit |
| Amortization Method | Level Percent | Level Percent |
| | Closed | 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, 2011, plan members were required to contribute 5% (for members before September 1, 2008) and 6% (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, 2011, participating employers contributed 16.93% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

Hazardous Contributions – For the year ended June 30, 2011, 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, 2011, participating employers contributed 33.25% of each employee’s creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

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> |
|--------------|------------------------------|--------------------------------------|
| 2011 | \$ 6,039,577 | 100 % |
| 2010 | 5,788,087 | 100 |
| 2009 | 5,261,517 | 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 \$300,000. 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 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, and a hearing is pending. 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 discrimination related to denial of a zoning permit. The suit does not specify damages, however, the City’s counsel has advised that the case has potential for a large judgment, up to \$250,000. 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 \$100,000. 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.

NOTE 10 – CONTINGENCIES (Continued)

The City is a defendant in a lawsuit filed for inverse condemnation action. The suit does not specify damages however, the City’s counsel has advised that the case has a potential for a large judgment, up to \$300,000. 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 party to an action filed by the unions seeking an injunction to prevent the City from making budgetary cuts. 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 additional costs of \$300,000 – \$500,000, annually. The City believes the action is without merit and intends to vigorously defend its position.

The City is a party to a grievance filed by the FOP alleging overtime contract violations. The action will be arbitrated. 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 large judgment, up to \$120,000. 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 have joined other cities in filing suit against the insurance carrier for payment of this and similar claims. 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 probable outcome.

NOTE 11 – FUND BALANCE RESTATEMENT

During the year ended June 30, 2011, the City adopted the provisions of “Fund Balance Reporting and Governmental Fund Type Definitions” issued by the Governmental Accounting Standards Board. This statement established new categories for reporting fund balances and revised the definitions for governmental fund types. Based on the provisions of this statement, the City has discontinued the use of certain funds for external financial reporting purposes previously accounted for as special revenue or debt service funds, and included the activity in the general fund. Accordingly, the governmental fund balance has been restated as of July 1, 2010 as follows:

| | July 1, 2010 <u>Fund Balance</u> |
|---------------------------------------|-------------------------------------|
| General Fund – As Originally Reported | \$ 342,498 |
| Funds Combined into General Fund: | |
| Newport Steel UDAG | 296,484 |
| Investor Program | 488,706 |
| City Hall Operations | 42,926 |
| Arts District | - |
| 501 Main Street Operations | - |
| Working Capital Reserve | 1,770,264 |
| Property Acquisitions | - |
| KLC Series 2002 | - |
| Capital Improvement Fund | <u>46,680</u> |
| General Fund – As Restated | <u>\$ 2,987,558</u> |

NOTE 12 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2011, the date of the most recent statement of net assets, have been evaluated for possible adjustment to the financial statements or disclosure is December 13, 2011 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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | | | | |
| Real Property | \$ 6,112,402 | \$ 6,112,402 | \$ 5,954,136 | \$ (158,266) |
| Personal Property | 500,000 | 500,000 | 516,905 | 16,905 |
| Bank Deposit | 64,896 | 64,896 | 71,391 | 6,495 |
| Franchise | 2,337,485 | 2,337,485 | 2,107,927 | (229,558) |
| Insurance Premium | 5,250,000 | 5,250,000 | 5,155,801 | (94,199) |
| Licenses and Permits | | | | |
| Payroll License Fees | 22,600,000 | 22,600,000 | 22,595,598 | (4,402) |
| Net Profits License Fees | 2,400,000 | 2,400,000 | 2,404,497 | 4,497 |
| Night Club Permits | 135,000 | 135,000 | 140,000 | 5,000 |
| Liquor and Beer Licenses | 150,000 | 150,000 | 142,987 | (7,013) |
| Building and Zoning | 120,000 | 120,000 | 73,812 | (46,188) |
| Dog Licenses | 8,000 | 8,000 | 5,361 | (2,639) |
| Intergovernmental | 1,316,051 | 1,316,051 | 1,652,616 | 336,565 |
| Fines and Forfeitures | 675,000 | 675,000 | 558,465 | (116,535) |
| Charges for Services | | | | |
| Waste Fees | 2,148,533 | 2,148,533 | 2,082,635 | (65,898) |
| Parking | 1,194,000 | 1,194,000 | 1,458,784 | 264,784 |
| Squad Runs | 1,350,000 | 1,350,000 | 1,175,621 | (174,379) |
| Rental Property | 294,000 | 294,000 | 332,580 | 38,580 |
| Other | 506,736 | 506,736 | 344,728 | (162,008) |
| Interest | 45,000 | 45,000 | 45,885 | 885 |
| Miscellaneous | 529,800 | 1,529,800 | 615,861 | (913,939) |
| Total Revenues | <u>47,736,903</u> | <u>48,736,903</u> | <u>47,435,590</u> | <u>(1,301,313)</u> |
| Expenditures | | | | |
| General Government | | | | |
| Administration Department | | | | |
| Payroll | 226,545 | 744,849 | 737,492 | 7,357 |
| Employee Benefits | 385,485 | 390,485 | 387,530 | 2,955 |
| Contractual Services | 167,490 | 192,490 | 175,289 | 17,201 |
| Materials and Supplies | 35,000 | 40,000 | 34,317 | 5,683 |
| Miscellaneous | 265,100 | 265,100 | 200,796 | 64,304 |
| Total Administration Department | <u>1,079,620</u> | <u>1,632,924</u> | <u>1,535,424</u> | <u>97,500</u> |
| Legal Department | | | | |
| Payroll | 231,004 | 231,004 | 230,382 | 622 |
| Employee Benefits | 119,211 | 119,211 | 128,114 | (8,903) |
| Contractual Services | 53,550 | 53,550 | 48,507 | 5,043 |
| Materials and Supplies | 17,409 | 22,409 | 17,955 | 4,454 |
| Miscellaneous | - | - | - | - |
| Total Legal Department | <u>421,174</u> | <u>426,174</u> | <u>424,958</u> | <u>1,216</u> |
| Finance Department | | | | |
| Payroll | 455,898 | 505,898 | 525,470 | (19,572) |
| Employee Benefits | 296,737 | 296,737 | 299,980 | (3,243) |
| Contractual Services | 332,970 | 342,970 | 301,984 | 40,986 |
| Materials and Supplies | 46,350 | 36,350 | 32,071 | 4,279 |
| Miscellaneous | - | - | - | - |
| Total Finance Department | <u>1,131,955</u> | <u>1,181,955</u> | <u>1,159,505</u> | <u>22,450</u> |
| Total General Government | <u>2,632,749</u> | <u>3,241,053</u> | <u>3,119,887</u> | <u>121,166</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, 2011
(Continued)

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|-----------------------------|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Police | | | | |
| Payroll | \$ 8,302,581 | \$ 8,582,201 | \$ 8,330,652 | \$ 251,549 |
| Employee Benefits | 5,362,317 | 5,412,697 | 5,680,542 | (267,845) |
| Contractual Services | 718,786 | 853,786 | 806,849 | 46,937 |
| Materials and Supplies | 438,307 | 438,307 | 470,673 | (32,366) |
| Miscellaneous | - | - | - | - |
| Total Police | <u>14,821,991</u> | <u>15,286,991</u> | <u>15,288,716</u> | <u>(1,725)</u> |
| Fire | | | | |
| Payroll | 7,382,422 | 7,382,422 | 7,402,663 | (20,241) |
| Employee Benefits | 4,896,667 | 5,146,667 | 5,195,070 | (48,403) |
| Contractual Services | 321,000 | 321,000 | 303,942 | 17,058 |
| Materials and Supplies | 306,790 | 306,790 | 255,039 | 51,751 |
| Miscellaneous | - | - | - | - |
| Total Fire | <u>12,906,879</u> | <u>13,156,879</u> | <u>13,156,714</u> | <u>165</u> |
| Public Improvements | | | | |
| Payroll | 2,752,993 | 2,752,993 | 2,669,106 | 83,887 |
| Employee Benefits | 1,769,253 | 1,769,253 | 1,694,632 | 74,621 |
| Contractual Services | 1,134,795 | 1,025,491 | 1,091,882 | (66,391) |
| Materials and Supplies | 897,380 | 897,380 | 813,263 | 84,117 |
| Miscellaneous | - | - | - | - |
| Total General Services | <u>6,554,421</u> | <u>6,445,117</u> | <u>6,268,883</u> | <u>176,234</u> |
| Recreation | | | | |
| Payroll | 276,771 | 276,771 | 233,349 | 43,422 |
| Employee Benefits | 95,190 | 95,190 | 103,581 | (8,391) |
| Contractual Services | 108,000 | 108,000 | 90,171 | 17,829 |
| Materials and Supplies | 43,600 | 43,600 | 28,111 | 15,489 |
| Miscellaneous | - | - | - | - |
| Total Recreation | <u>523,561</u> | <u>523,561</u> | <u>455,212</u> | <u>68,349</u> |
| Community Development | | | | |
| Payroll | 573,829 | 573,829 | 536,895 | 36,934 |
| Employee Benefits | 342,605 | 342,605 | 307,596 | 35,009 |
| Contractual Services | 2,103,446 | 2,178,446 | 2,266,531 | (88,085) |
| Materials and Supplies | 13,700 | 13,700 | 16,876 | (3,176) |
| Miscellaneous | 625,000 | 625,000 | 84,479 | 540,521 |
| Total Community Development | <u>3,658,580</u> | <u>3,733,580</u> | <u>3,212,377</u> | <u>521,203</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, 2011
(Continued)

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|--------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Economic Development | | | | |
| Payroll | \$ 432,073 | \$ 432,073 | \$ 276,672 | \$ 155,401 |
| Employee Benefits | 212,478 | 212,478 | 146,492 | 65,986 |
| Contractual Services | 107,390 | 107,390 | 100,506 | 6,884 |
| Materials and Supplies | 17,600 | 17,600 | 13,403 | 4,197 |
| Miscellaneous | - | - | - | - |
| Total Economic Development | <u>769,541</u> | <u>769,541</u> | <u>537,073</u> | <u>232,468</u> |
| Total Community Development and Economic Development | <u>4,428,121</u> | <u>4,503,121</u> | <u>3,749,450</u> | <u>753,671</u> |
| Parking Garages | | | | |
| Contractual Services | 738,460 | 738,460 | 865,947 | (127,487) |
| Materials and Supplies | 10,700 | 10,700 | - | 10,700 |
| Total Parking Garages | <u>749,160</u> | <u>749,160</u> | <u>865,947</u> | <u>(116,787)</u> |
| Capital Outlay | | | | |
| General Government | 4,033,834 | 3,391,572 | 2,791,727 | 599,845 |
| Police | - | - | - | - |
| Fire | - | - | - | - |
| General Services | - | - | - | - |
| Housing | - | - | - | - |
| Recreation | 4,500 | 4,500 | - | 4,500 |
| Total Capital Outlay | <u>4,038,334</u> | <u>3,396,072</u> | <u>2,791,727</u> | <u>604,345</u> |
| Debt Service | | | | |
| Principal | 1,434,812 | 1,684,812 | 1,584,379 | 100,433 |
| Interest | 834,219 | 844,219 | 773,278 | 70,941 |
| Total Debt Service | <u>2,269,031</u> | <u>2,529,031</u> | <u>2,357,657</u> | <u>171,374</u> |
| Total Expenditures | <u>48,924,247</u> | <u>49,830,985</u> | <u>48,054,193</u> | <u>1,776,792</u> |
| Excess (Deficit) of Revenues Over Expenditures | <u>(1,187,344)</u> | <u>(1,094,082)</u> | <u>(618,603)</u> | <u>475,479</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 3,608,427 | 3,608,427 | 3,384,363 | (224,064) |
| Proceeds on Sale of Capital Assets | - | - | 13,647 | 13,647 |
| Proceeds from Issuance of Debt, Net of Discount | 2,929,211 | 1,977,687 | 2,806,827 | 829,140 |
| Proceeds from Bond Refunding, Including Premium | - | - | 315,000 | 315,000 |
| Bond Issuance Costs | - | - | (59,623) | (59,623) |
| Payment to Refunded Lease Escrow Agent | - | - | (303,694) | (303,694) |
| Transfers Out | (5,171,032) | (4,922,032) | (4,904,820) | 17,212 |
| Total Other Financing Sources (Uses) | <u>1,366,606</u> | <u>664,082</u> | <u>1,251,700</u> | <u>587,618</u> |
| Net Change in Fund Balance | 179,262 | (430,000) | 633,097 | 1,063,097 |
| Fund Balance July 1, 2010 | <u>430,000</u> | <u>430,000</u> | <u>2,987,558</u> | <u>2,557,558</u> |
| Fund Balance June 30, 2011 | <u>\$ 609,262</u> | <u>\$ -</u> | <u>\$ 3,620,655</u> | <u>\$ 3,620,655</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, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|---|-------------------------|------------------|------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 1,986,407 | \$ 2,439,639 | \$ 1,784,112 | \$ (655,527) |
| Miscellaneous | 318,046 | 318,046 | 510,738 | 192,692 |
| Total Revenues | <u>2,304,453</u> | <u>2,757,685</u> | <u>2,294,850</u> | <u>(462,835)</u> |
| Expenditures | | | | |
| Community Development | 1,139,407 | 1,388,770 | 1,168,375 | 220,395 |
| Debt Service | | | | |
| Principal | 67,000 | 67,000 | 67,000 | - |
| Interest and Other Charges | 18,046 | 21,915 | 21,915 | - |
| Capital Outlay | 742,000 | 942,000 | 720,560 | 221,440 |
| Total Expenditures | <u>1,966,453</u> | <u>2,419,685</u> | <u>1,977,850</u> | <u>441,835</u> |
| Excess (Deficit) of Revenues Over Expenditures | 338,000 | 338,000 | 317,000 | (21,000) |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Sale of Assets | - | - | - | - |
| Transfers Out | (338,000) | (338,000) | (317,000) | 21,000 |
| Net Change in Fund Balance | - | - | - | - |
| Fund Balance July 1, 2010 | - | - | - | - |
| Fund Balance June 30, 2011 | <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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|----------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 535,724 | \$ 647,061 | \$ 445,399 | \$ (201,662) |
| Investment Earnings | - | - | 102 | 102 |
| Miscellaneous | <u>210,000</u> | <u>210,000</u> | <u>256,056</u> | <u>46,056</u> |
| Total Revenues | <u>745,724</u> | <u>857,061</u> | <u>701,557</u> | <u>(155,504)</u> |
| Expenditures | | | | |
| Community Development | 678,948 | 731,011 | 695,796 | 35,215 |
| Capital Outlay | <u>66,776</u> | <u>126,050</u> | <u>77,481</u> | <u>48,569</u> |
| Total Expenditures | <u>745,724</u> | <u>857,061</u> | <u>773,277</u> | <u>83,784</u> |
| Excess (Deficit) of Revenues Over Expenditures | - | - | (71,720) | (71,720) |
| Fund Balance July 1, 2010 | <u>-</u> | <u>-</u> | <u>200,903</u> | <u>200,903</u> |
| Fund Balance June 30, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 129,183</u> | <u>\$ 129,183</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, 2011

| | <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 | \$ 6,722,004 | \$ 122,431 |
| Investment Earnings | 30,000 | 30,000 | 695 | (29,305) |
| Miscellaneous | <u>-</u> | <u>-</u> | <u>9,896</u> | <u>9,896</u> |
| Total Revenues | 6,116,652 | 6,629,573 | 6,732,595 | 103,022 |
| Expenditures | | | | |
| Community Development | <u>6,117,547</u> | <u>6,609,573</u> | <u>6,411,229</u> | <u>198,344</u> |
| Excess (Deficit) of Revenues Over Expenditures | (895) | 20,000 | 321,366 | 301,366 |
| Fund Balance July 1, 2010 | <u>-</u> | <u>-</u> | <u>868,019</u> | <u>868,019</u> |
| Fund Balance June 30, 2011 | <u><u>\$ (895)</u></u> | <u><u>\$ 20,000</u></u> | <u><u>\$ 1,189,385</u></u> | <u><u>\$ 1,169,385</u></u> |

OTHER SUPPLEMENTARY INFORMATION

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

**CITY OF COVINGTON, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2011**

| | Special Revenue Funds | | | | | |
|--|--------------------------------------|-----------------------------------|-----------------------------------|---|------------------------------|-------------------|
| | Police and Fire Incentive | Devou Park Maintenance | Devou Park Master Plan | Federal and State Grant Fund | Police Forfeiture | CAD System |
| Assets | | | | | | |
| Cash and Cash Equivalents | \$ 51,736 | \$ 238,812 | \$ 5,356 | \$ - | \$ 143,484 | \$ 896 |
| Receivables | | | | | | |
| Taxes | - | - | - | - | - | - |
| Intergovernmental | - | - | - | 121,756 | - | - |
| Notes | - | - | - | - | - | - |
| Accounts | 36,837 | - | 25,535 | 32,813 | - | - |
| Due from Other Funds | - | - | 5,126 | 132,259 | 4,070 | 106,013 |
| Prepays | - | - | - | - | - | - |
| Total Assets | \$ 88,573 | \$ 238,812 | \$ 36,017 | \$ 286,828 | \$ 147,554 | \$ 106,909 |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Accounts Payable | \$ - | \$ 11,148 | \$ 36,017 | \$ 65,769 | \$ 28,503 | \$ - |
| Accrued Liabilities | - | - | - | - | - | - |
| Due to Other Funds | 85,252 | 68,559 | - | 145,213 | - | 96,386 |
| Deferred Revenue | - | 147,041 | - | 73,052 | - | - |
| Total Liabilities | 85,252 | 226,748 | 36,017 | 284,034 | 28,503 | 96,386 |
| Fund Balances | | | | | | |
| Restricted for: | | | | | | |
| Police Incentive | 3,321 | - | - | - | - | - |
| Grant Programs | - | - | - | 2,794 | - | - |
| Committed for: | | | | | | |
| Devou Park Maintenance | - | 12,064 | - | - | - | - |
| Police | - | - | - | - | 119,051 | - |
| CAD System | - | - | - | - | - | 10,523 |
| Debt Service Funds | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - |
| Total Fund Balances | 3,321 | 12,064 | - | 2,794 | 119,051 | 10,523 |
| Total Liabilities and Fund Balances | \$ 88,573 | \$ 238,812 | \$ 36,017 | \$ 286,828 | \$ 147,554 | \$ 106,909 |

**CITY OF COVINGTON, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2011
(Continued)**

| | Special Revenue Funds | | | | Debt Service Funds | | |
|--|---------------------------|----------------------------|--------------------------------|--|-------------------------------------|----------------------------|------------------------------------|
| | Renaissance Grant Fund | Home Consortium Fund | Homeless Prevention Fund | Neighborhood Stabilization Program | 2004 Pension Obligation Bonds | 2005 Refunding Bonds | Non-Major Governmental Funds |
| Assets | | | | | | | |
| Cash and Cash Equivalents | \$ - | \$ - | \$ - | \$ 29 | \$ 238,187 | \$ 10,605 | \$ 689,105 |
| Receivables | | | | | | | |
| Taxes | - | - | - | - | - | - | - |
| Intergovernmental | 153,841 | 35,580 | 94,024 | 335,384 | - | - | 740,585 |
| Notes | - | 707,077 | - | 1,763,500 | - | - | 2,470,577 |
| Accounts | - | - | - | - | 3,825 | - | 99,010 |
| Due from Other Funds | - | 12,804 | - | - | - | - | 260,272 |
| Prepays | - | - | - | - | - | - | - |
| Total Assets | <u>\$ 153,841</u> | <u>\$ 755,461</u> | <u>\$ 94,024</u> | <u>\$ 2,098,913</u> | <u>\$ 242,012</u> | <u>\$ 10,605</u> | <u>\$ 4,259,549</u> |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities | | | | | | | |
| Accounts Payable | \$ - | \$ - | \$ 94,024 | \$ 59,769 | \$ - | \$ - | \$ 295,230 |
| Accrued Liabilities | - | - | - | - | - | - | - |
| Due to Other Funds | 103,431 | 48,384 | - | 275,644 | 128,045 | 37,667 | 988,581 |
| Deferred Revenue | 29,164 | 707,077 | - | 1,763,500 | - | - | 2,719,834 |
| Total Liabilities | <u>132,595</u> | <u>755,461</u> | <u>94,024</u> | <u>2,098,913</u> | <u>128,045</u> | <u>37,667</u> | <u>4,003,645</u> |
| Fund Balances | | | | | | | |
| Restricted for: | | | | | | | |
| Police Incentive | - | - | - | - | - | - | 3,321 |
| Grant Programs | 21,246 | - | - | - | - | - | 24,040 |
| Committed for: | | | | | | | |
| Devou Park Maintenance | - | - | - | - | - | - | 12,064 |
| Police | - | - | - | - | - | - | 119,051 |
| CAD System | - | - | - | - | - | - | 10,523 |
| Debt Service | - | - | - | - | 113,967 | - | 113,967 |
| Unassigned | - | - | - | - | - | (27,062) | (27,062) |
| Total Fund Balances | <u>21,246</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>113,967</u> | <u>(27,062)</u> | <u>255,904</u> |
| Total Liabilities and Fund Balances | <u>\$ 153,841</u> | <u>\$ 755,461</u> | <u>\$ 94,024</u> | <u>\$ 2,098,913</u> | <u>\$ 242,012</u> | <u>\$ 10,605</u> | <u>\$ 4,259,549</u> |

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2011

| | Special Revenue Funds | | | | | |
|---|--------------------------------------|-----------------------------------|-----------------------------------|---|------------------------------|-------------------|
| | Police and Fire Incentive | Devou Park Maintenance | Devou Park Master Plan | Federal and State Grant Fund | Police Forfeiture | CAD System |
| Revenues | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 836,974 |
| Licenses and Permits | - | - | - | - | - | - |
| Intergovernmental | 922,797 | - | - | 258,045 | 86,501 | - |
| Charges for Services | - | - | - | - | - | - |
| Fines and Forfeitures | - | - | - | - | - | - |
| Investment Earnings | - | 10 | - | - | 120 | 78 |
| Miscellaneous | - | 68,090 | 544,279 | - | - | - |
| Total Revenues | 922,797 | 68,100 | 544,279 | 258,045 | 86,621 | 837,052 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General Government | - | 170,149 | 305,199 | 255,062 | - | 96,386 |
| Police | 446,131 | - | - | - | 179,031 | - |
| Fire | 473,345 | - | - | - | - | - |
| Public Improvements | - | - | - | - | - | - |
| Recreation | - | - | - | - | - | - |
| Community Development | - | - | - | - | - | - |
| Parking Garage | - | - | - | - | - | - |
| Debt Service | | | | | | |
| Principal | - | - | - | - | - | - |
| Interest and Other Charges | - | - | - | - | - | - |
| Capital Outlay | - | - | 239,080 | - | 11,792 | - |
| Total Expenditures | 919,476 | 170,149 | 544,279 | 255,062 | 190,823 | 96,386 |
| Excess (Deficit) of Revenues Over Expenditures | 3,321 | (102,049) | - | 2,983 | (104,202) | 740,666 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers In | - | 121,900 | - | - | - | - |
| Transfers Out | - | (31,213) | - | (256) | - | (824,000) |
| Total Other Financing Sources (Uses) | - | 90,687 | - | (256) | - | (824,000) |
| Net Change in Fund Balances | 3,321 | (11,362) | - | 2,727 | (104,202) | (83,334) |
| Fund Balance July 1, 2010 | - | 23,426 | - | 67 | 223,253 | 93,857 |
| Fund Balance June 30, 2011 | \$ 3,321 | \$ 12,064 | \$ - | \$ 2,794 | \$ 119,051 | \$ 10,523 |

CITY OF COVINGTON, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2011
 (Continued)

| | Special Revenue Funds | | | | Debt Service Funds | | |
|---|---------------------------|----------------------------|--------------------------------|--|-------------------------------------|----------------------------|------------------------------------|
| | Renaissance Grant Fund | Home Consortium Fund | Homeless Prevention Fund | Neighborhood Stabilization Program | 2004 Pension Obligation Bonds | 2005 Refunding Bonds | Non-Major Governmental Funds |
| Revenues | | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 836,974 |
| Licenses and Permits | - | - | - | - | - | - | - |
| Intergovernmental | 172,777 | 231,699 | 348,990 | 1,059,302 | - | - | 3,080,111 |
| Charges for Services | - | - | - | - | - | - | - |
| Fines and Forfeitures | - | - | - | - | - | - | - |
| Investment Earnings | - | - | - | - | 354 | - | 562 |
| Miscellaneous | - | - | - | - | - | - | 612,369 |
| Total Revenues | <u>172,777</u> | <u>231,699</u> | <u>348,990</u> | <u>1,059,302</u> | <u>354</u> | <u>-</u> | <u>4,530,016</u> |
| Expenditures | | | | | | | |
| Current | | | | | | | |
| General Government | - | - | - | 281,646 | 87,320 | - | 1,195,762 |
| Police | - | - | - | - | - | - | 625,162 |
| Fire | - | - | - | - | - | - | 473,345 |
| Public Improvements | - | - | - | - | - | - | - |
| Recreation | - | - | - | - | - | - | - |
| Community Development | 151,531 | 231,699 | 348,990 | 318,195 | - | - | 1,050,415 |
| Parking Garage | - | - | - | - | - | - | - |
| Debt Service | | | | | | | |
| Principal | - | - | - | - | 385,000 | 1,095,000 | 1,480,000 |
| Interest and Other Charges | - | - | - | - | 616,532 | 91,760 | 708,292 |
| Capital Outlay | - | - | - | 459,462 | - | - | 710,334 |
| Total Expenditures | <u>151,531</u> | <u>231,699</u> | <u>348,990</u> | <u>1,059,303</u> | <u>1,088,852</u> | <u>1,186,760</u> | <u>6,243,310</u> |
| Excess (Deficit) of Revenues Over Expenditures | <u>21,246</u> | <u>-</u> | <u>-</u> | <u>(1)</u> | <u>(1,088,498)</u> | <u>(1,186,760)</u> | <u>(1,713,294)</u> |
| Other Financing Sources (Uses) | | | | | | | |
| Transfers In | - | - | - | - | 1,121,933 | 1,149,092 | 2,392,925 |
| Transfers Out | - | - | - | - | - | - | (855,469) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,121,933</u> | <u>1,149,092</u> | <u>1,537,456</u> |
| Net Change in Fund Balances | <u>21,246</u> | <u>-</u> | <u>-</u> | <u>(1)</u> | <u>33,435</u> | <u>(37,668)</u> | <u>(175,838)</u> |
| Fund Balance July 1, 2010 | <u>-</u> | <u>-</u> | <u>-</u> | <u>1</u> | <u>80,532</u> | <u>10,606</u> | <u>431,742</u> |
| Fund Balance June 30, 2011 | <u>\$ 21,246</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 113,967</u> | <u>\$ (27,062)</u> | <u>\$ 255,904</u> |

**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, 2011

| | <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 | \$ 922,797 | \$ (44,203) |
| Expenditures | | | | |
| Police | 476,500 | 476,500 | 446,131 | 30,369 |
| Fire | 490,500 | 490,500 | 473,345 | 17,155 |
| Total Expenditures | 967,000 | 967,000 | 919,476 | 47,524 |
| Excess (Deficit) of Revenues Over Expenditures | - | - | 3,321 | 3,321 |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 10,000 | 110,000 | - | (110,000) |
| Net Change in Fund Balance | 10,000 | 110,000 | 3,321 | (106,679) |
| Fund Balance July 1, 2010 | - | - | - | - |
| Fund Balance June 30, 2011 | <u>\$ 10,000</u> | <u>\$ 110,000</u> | <u>\$ 3,321</u> | <u>\$ (106,679)</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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-----------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Investment Earnings | \$ - | \$ - | \$ 10 | \$ 10 |
| Miscellaneous | 931,517 | 90,000 | 68,090 | (21,910) |
| Total Revenues | <u>931,517</u> | <u>90,000</u> | <u>68,100</u> | <u>(21,900)</u> |
| Expenditures | | | | |
| General Government | 110,000 | 160,000 | 170,149 | (10,149) |
| Capital Outlay | 831,517 | - | - | - |
| Total Expenditures | <u>941,517</u> | <u>160,000</u> | <u>170,149</u> | <u>(10,149)</u> |
| Excess (Deficit) of Revenues Over Expenditures | <u>(10,000)</u> | <u>(70,000)</u> | <u>(102,049)</u> | <u>(32,049)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 10,000 | 110,000 | 121,900 | 11,900 |
| Transfers Out | - | (40,000) | (31,213) | 8,787 |
| Total Other Financing Sources (Uses) | <u>10,000</u> | <u>70,000</u> | <u>90,687</u> | <u>20,687</u> |
| Net Change in Fund Balance | - | - | (11,362) | (11,362) |
| Fund Balance July 1, 2010 | <u>-</u> | <u>-</u> | <u>23,426</u> | <u>23,426</u> |
| Fund Balance June 30, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 12,064</u> | <u>\$ 12,064</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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------|---------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Miscellaneous | \$ - | \$ 1,200,000 | \$ 544,279 | \$ (655,721) |
| Expenditures | | | | |
| General Government | - | 800,000 | 305,199 | 494,801 |
| Capital Outlay | - | 400,000 | 239,080 | 160,920 |
| Total Expenditures | - | 1,200,000 | 544,279 | 655,721 |
| Excess (Deficit) of Revenues Over Expenditures | - | - | - | - |
| Fund Balance July 1, 2010 | - | - | - | - |
| Fund Balance June 30, 2011 | \$ - | \$ - | \$ - | \$ - |

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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|--------------|-----------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 250,000 | \$ 400,000 | \$ 258,045 | \$ (141,955) |
| Expenditures | | | | |
| General Government | - | 375,000 | 255,062 | 119,938 |
| Fire | 250,000 | 25,000 | - | 25,000 |
| Total Expenditures | 250,000 | 400,000 | 255,062 | 144,938 |
| Excess (Deficit) of Revenues Over Expenditures | - | - | 2,983 | 2,983 |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | - | - | (256) | (256) |
| Net Change in Fund Balance | - | - | 2,727 | 2,727 |
| Fund Balance July 1, 2010 | - | - | 67 | 67 |
| Fund Balance June 30, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,794</u> | <u>\$ 2,794</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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|----------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 190,000 | \$ 375,000 | \$ 86,501 | \$ (288,499) |
| Investment Earnings | <u>10,000</u> | <u>-</u> | <u>120</u> | <u>120</u> |
| Total Revenues | <u>200,000</u> | <u>375,000</u> | <u>86,621</u> | <u>(288,379)</u> |
| Expenditures | | | | |
| Police | 115,000 | 290,000 | 179,031 | 110,969 |
| Capital Outlay | <u>85,000</u> | <u>85,000</u> | <u>11,792</u> | <u>73,208</u> |
| Total Expenditures | <u>200,000</u> | <u>375,000</u> | <u>190,823</u> | <u>184,177</u> |
| Excess (Deficit) of Revenues Over Expenditures | - | - | (104,202) | (104,202) |
| Fund Balance July 1, 2010 | <u>-</u> | <u>-</u> | <u>223,253</u> | <u>223,253</u> |
| Fund Balance June 30, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 119,051</u> | <u>\$ 119,051</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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|------------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 637,000 | \$ 822,000 | \$ 836,974 | \$ 14,974 |
| Investment Earnings | <u>2,000</u> | <u>2,000</u> | <u>78</u> | <u>(1,922)</u> |
| Total Revenues | 639,000 | 824,000 | 837,052 | 13,052 |
| Expenditures | | | | |
| General Government | <u>-</u> | <u>100,000</u> | <u>96,386</u> | <u>3,614</u> |
| Excess (Deficit) of Revenues Over Expenditures | 639,000 | 724,000 | 740,666 | 16,666 |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | <u>(639,000)</u> | <u>(824,000)</u> | <u>(824,000)</u> | <u>-</u> |
| Net Change in Fund Balance | - | (100,000) | (83,334) | 16,666 |
| Fund Balance July 1, 2010 | <u>-</u> | <u>100,000</u> | <u>93,857</u> | <u>(6,143)</u> |
| Fund Balance June 30, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 10,523</u> | <u>\$ 10,523</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, 2011

| | <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 | \$ 172,777 | \$ (327,223) |
| Expenditures | | | | |
| Community Development | 100,000 | 100,000 | 151,531 | (51,531) |
| Capital Outlay | 400,000 | 400,000 | - | 400,000 |
| Total Expenditures | <u>500,000</u> | <u>500,000</u> | <u>151,531</u> | <u>348,469</u> |
| Excess (Deficit) of Revenues Over Expenditures | - | - | 21,246 | 21,246 |
| Fund Balance July 1, 2010 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance June 30, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 21,246</u> | <u>\$ 21,246</u> |

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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|----------------|----------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 362,404 | \$ 424,832 | \$ 231,699 | \$ (193,133) |
| Expenditures | | | | |
| Community Development | 297,920 | 360,348 | 231,699 | 128,649 |
| Capital Outlay | <u>64,484</u> | <u>64,484</u> | <u>-</u> | <u>64,484</u> |
| Total Expenditures | <u>362,404</u> | <u>424,832</u> | <u>231,699</u> | <u>193,133</u> |
| Excess (Deficit) of Revenues Over Expenditures | - | - | - | - |
| Fund Balance July 1, 2010 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance June 30, 2011 | <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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|--------------|---------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ - | \$ 616,047 | \$ 348,990 | \$ (267,057) |
| Expenditures | | | | |
| Community Development | - | 616,047 | 348,990 | 267,057 |
| Excess (Deficit) of Revenues Over Expenditures | - | - | - | - |
| Fund Balance July 1, 2010 | - | - | - | - |
| Fund Balance June 30, 2011 | \$ - | \$ - | \$ - | \$ - |

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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------|---------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ - | \$ 4,579,424 | \$ 1,059,302 | \$ (3,520,122) |
| Expenditures | | | | |
| General Government | - | - | 281,646 | (281,646) |
| Community Development | - | 840,000 | 318,195 | 521,805 |
| Capital Outlay | - | 3,689,424 | 459,462 | 3,229,962 |
| Total Expenditures | - | 4,529,424 | 1,059,303 | 3,470,121 |
| Excess (Deficit) of Revenues Over Expenditures | - | 50,000 | (1) | (50,001) |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | - | (50,000) | - | 50,000 |
| Net Change in Fund Balance | - | - | (1) | (1) |
| Fund Balance July 1, 2010 | - | - | 1 | 1 |
| Fund Balance June 30, 2011 | \$ - | \$ - | \$ - | \$ - |

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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---------------------------------------|-------------------------|------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Investment Earnings | \$ - | \$ - | \$ 354 | \$ 354 |
| Expenditures | | | | |
| General Government | 75,000 | 75,000 | 87,320 | (12,320) |
| Debt Service | | | | |
| Principal | 385,000 | 385,000 | 385,000 | - |
| Interest and Other Charges | <u>779,870</u> | <u>779,870</u> | <u>616,532</u> | <u>163,338</u> |
| Total Expenditures | <u>1,239,870</u> | <u>1,239,870</u> | <u>1,088,852</u> | <u>151,018</u> |
| Deficit of Revenues Over Expenditures | (1,239,870) | (1,239,870) | (1,088,498) | 151,372 |
| Other Financing Sources (Uses) | | | | |
| Transfers In | <u>1,239,870</u> | <u>1,239,870</u> | <u>1,121,933</u> | <u>(117,937)</u> |
| Net Change in Fund Balance | - | - | 33,435 | 33,435 |
| Fund Balance July 1, 2010 | <u>-</u> | <u>-</u> | <u>80,532</u> | <u>80,532</u> |
| Fund Balance June 30, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 113,967</u> | <u>\$ 113,967</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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---------------------------------------|-------------------------|------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Debt Service | | | | |
| Principal | \$ 1,095,000 | \$ 1,095,000 | \$ 1,095,000 | \$ - |
| Interest and Other Charges | 91,760 | 91,760 | 91,760 | - |
| Total Expenditures | <u>1,186,760</u> | <u>1,186,760</u> | <u>1,186,760</u> | <u>-</u> |
| Deficit of Revenues Over Expenditures | (1,186,760) | (1,186,760) | (1,186,760) | - |
| Other Financing Sources (Uses) | | | | |
| Transfers In | <u>1,186,760</u> | <u>1,186,760</u> | <u>1,149,092</u> | <u>(37,668)</u> |
| Net Change in Fund Balance | - | - | (37,668) | (37,668) |
| Fund Balance July 1, 2010 | <u>-</u> | <u>-</u> | <u>10,606</u> | <u>10,606</u> |
| Fund Balance June 30, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (27,062)</u> | <u>\$ (27,062)</u> |

COMBINING FINANCIAL STATEMENTS
PROPRIETARY FUNDS

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2011

| | Internal Service Funds | | |
|--------------------------------|--------------------------------|---|--------------|
| | Liability Insurance | Medical and Dental Insurance | Total |
| Assets | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 377 | \$ 38,073 | \$ 38,450 |
| Accounts Receivable | - | 186,350 | 186,350 |
| Due from Other Funds | 528,476 | 638,807 | 1,167,283 |
| Total Assets | 528,853 | 863,230 | 1,392,083 |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts Payable | 68,077 | 13,184 | 81,261 |
| Estimated Liability for Claims | - | 837,960 | 837,960 |
| Due to Other Funds | 274,721 | - | 274,721 |
| Total Liabilities | 342,798 | 851,144 | 1,193,942 |
| Net Assets | | | |
| Unrestricted | \$ 186,055 | \$ 12,086 | \$ 198,141 |

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2011

| | Internal Service Funds | | |
|---------------------------------|--------------------------------|---|-------------------|
| | Liability Insurance | Medical and Dental Insurance | Total |
| Operating Revenues | | | |
| Insurance Premium Payments | \$ - | \$ 6,686,432 | \$ 6,686,432 |
| Other Operating Revenues | 12,984 | 274,203 | 287,187 |
| Total Operating Revenues | <u>12,984</u> | <u>6,960,635</u> | <u>6,973,619</u> |
| Operating Expenses | | | |
| Contractual Services | 247,754 | 584,605 | 832,359 |
| Claims and Judgments | 269,930 | 6,376,011 | 6,645,941 |
| Total Operating Expenses | <u>517,684</u> | <u>6,960,616</u> | <u>7,478,300</u> |
| Operating Loss (Income) | (504,700) | 19 | (504,681) |
| Non-Operating Revenues | | | |
| Investment Income | 99 | 164 | 263 |
| Loss (Income) Before Transfers | (504,601) | 183 | (504,418) |
| Transfers In | 300,000 | - | 300,000 |
| Change in Net Assets | (204,601) | 183 | (204,418) |
| Net Assets July 1, 2010 | <u>390,656</u> | <u>11,903</u> | <u>402,559</u> |
| Net Assets June 30, 2011 | <u>\$ 186,055</u> | <u>\$ 12,086</u> | <u>\$ 198,141</u> |

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2011

| | <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 | \$ - | \$ 6,168,777 | \$ 6,168,777 |
| Cash Received from Other Activities | 12,984 | 274,203 | 287,187 |
| Cash Paid for Claims | <u>(1,199,509)</u> | <u>(6,988,480)</u> | <u>(8,187,989)</u> |
| Net Cash Used by Operating Activities | (1,186,525) | (545,500) | (1,732,025) |
| Cash Flows from Non-Capital Financing Activities | | | |
| Transfer from Other Funds | (228,476) | - | (228,476) |
| Cash Flows from Investing Activities | | | |
| Interest Income | <u>99</u> | <u>164</u> | <u>263</u> |
| Net Change in Cash | (1,414,902) | (545,336) | (1,960,238) |
| Cash and Cash Equivalents July 1, 2010 | <u>1,415,279</u> | <u>583,409</u> | <u>1,998,688</u> |
| Cash and Cash Equivalents June 30, 2011 | <u>\$ 377</u> | <u>\$ 38,073</u> | <u>\$ 38,450</u> |
| Reconciliation of Operating Loss to Net Cash Used by Operating Activities | | | |
| Operating (Loss) Income | \$ (504,700) | \$ 19 | \$ (504,681) |
| Change in Assets and Liabilities | | | |
| Accounts Receivable | - | (109,294) | (109,294) |
| Due from Other Funds | - | (188,807) | (188,807) |
| Accounts Payable | 64,277 | 7,709 | 71,986 |
| Estimated Liability for Claims | (820,823) | (35,573) | (856,396) |
| Due to Other Funds | <u>74,721</u> | <u>(219,554)</u> | <u>(144,833)</u> |
| Net Cash Used by Operating Activities | <u>\$ (1,186,525)</u> | <u>\$ (545,500)</u> | <u>\$ (1,732,025)</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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|----------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Operating Revenues | | | | |
| Other Operating Revenues | \$ - | \$ 100,000 | \$ 12,984 | \$ (87,016) |
| Operating Expenses | | | | |
| Contractual Services | 160,000 | 310,000 | 247,754 | 62,246 |
| Claims and Judgments | 65,000 | 190,000 | 269,930 | (79,930) |
| Total Operating Expenses | <u>225,000</u> | <u>500,000</u> | <u>517,684</u> | <u>(17,684)</u> |
| Operating Loss | (225,000) | (400,000) | (504,700) | (104,700) |
| Non-Operating Revenues | | | | |
| Investment Income | <u>25,000</u> | <u>25,000</u> | <u>99</u> | <u>(24,901)</u> |
| Income (Loss) Before Transfers | (200,000) | (375,000) | (504,601) | (129,601) |
| Transfers In | <u>200,000</u> | <u>200,000</u> | <u>300,000</u> | <u>100,000</u> |
| Change in Net Assets | - | (175,000) | (204,601) | (29,601) |
| Net Assets July 1, 2010 | <u>-</u> | <u>175,000</u> | <u>390,656</u> | <u>215,656</u> |
| Net Assets June 30, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 186,055</u> | <u>\$ 186,055</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, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|------------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Operating Revenues | | | | |
| Insurance Premium Payments | \$ 5,944,630 | \$ 6,254,857 | \$ 6,686,432 | \$ 431,575 |
| Other Operating Revenues | <u>150,000</u> | <u>150,000</u> | <u>274,203</u> | <u>124,203</u> |
| Total Operating Revenues | <u>6,094,630</u> | <u>6,404,857</u> | <u>6,960,635</u> | <u>555,778</u> |
| Operating Expenses | | | | |
| Contractual Services | 494,530 | 494,530 | 584,605 | (90,075) |
| Claims and Judgments | <u>5,500,000</u> | <u>5,910,427</u> | <u>6,376,011</u> | <u>(465,584)</u> |
| Total Operating Expenses | <u>5,994,530</u> | <u>6,404,957</u> | <u>6,960,616</u> | <u>(555,659)</u> |
| Operating Loss | 100,100 | (100) | 19 | 119 |
| Non-Operating Revenues | | | | |
| Investment Income | <u>100</u> | <u>100</u> | <u>164</u> | <u>64</u> |
| Income (Loss) Before Transfers | 100,200 | - | 183 | 183 |
| Net Assets July 1, 2010 | <u>-</u> | <u>-</u> | <u>11,903</u> | <u>11,903</u> |
| Net Assets June 30, 2011 | <u>\$ 100,200</u> | <u>\$ -</u> | <u>\$ 12,086</u> | <u>\$ 12,086</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 2003 therefore tables presenting government-wide financial data include only nine years of information.

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

| | Fiscal Year | | | | | | | | |
|---|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>2011</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> |
| Governmental Activities / Primary Government | | | | | | | | | |
| Invested in Capital Assets, net of Related Debt | 36,088,303 | 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 for Capital Projects | 1,577,223 | | | | | | | | |
| Restricted for HUD Programs | 1,318,568 | | | | | | | | |
| Restricted for Police Incentive Pay | 3,321 | | | | | | | | |
| Restricted for Grant Programs | 24,040 | | | | | | | | |
| Restricted | | 91,138 | 193,693 | 550,682 | 888,123 | 1,307,719 | 1,593,846 | 1,943,252 | 1,943,882 |
| Unrestricted | 8,933,230 | 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 Assets | <u>47,944,685</u> | <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 2003 and GASB Statement 54 in fiscal year 2011.

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

| | Fiscal Year | | | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| Expenses | | | | | | | | | |
| Governmental Activities: | | | | | | | | | |
| General Government | 3,814,055 | 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 | 16,536,402 | 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 | 15,318,421 | 15,048,966 | 14,224,985 | 14,753,208 | 13,595,531 | 12,512,512 | 11,930,245 | 11,286,851 | 10,328,208 |
| Public Improvements | 11,780,808 | 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 | 734,672 | 796,215 | 2,740,960 | 2,426,639 | 2,350,546 | 2,325,250 | 2,575,568 | 1,045,289 | 787,164 |
| Community Development | 13,771,124 | 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 | 865,947 | 732,362 | 701,986 | 747,677 | 734,401 | 727,419 | 803,715 | 809,425 | 743,982 |
| Interest on Long-term Debt | 1,676,776 | 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 | 64,498,205 | 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 | 968,682 | 1,136,249 | 993,267 | 1,145,333 | 1,096,558 | 1,215,111 | 761,041 | 1,928,888 | 1,737,441 |
| Police | 307,539 | 412,722 | 406,557 | 382,318 | 331,579 | 372,192 | - | 344,287 | 516,097 |
| Fire | 1,175,621 | 1,282,105 | 1,077,448 | 1,084,825 | 1,073,548 | 912,526 | 987,802 | 546,276 | 510,848 |
| Public Improvements | 2,082,635 | 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 |
| Community Development | 98,196 | 79,317 | 37,833 | 41,860 | 114,177 | 56,017 | | | 1,312,485 |
| Parking Garage | 1,458,784 | 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 | 13,533,951 | 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 | 2,558,805 | 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 | 22,184,213 | 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 | (42,313,992) | (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 | 6,481,511 | 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 | 516,905 | 557,999 | 653,748 | 601,109 | 553,057 | 589,401 | 496,286 | 474,360 | 679,089 |
| Public Services Taxes | 2,107,927 | 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 | 71,391 | 60,603 | 53,161 | 67,789 | 59,042 | 62,232 | 62,323 | 102,802 | 74,272 |
| Insurance Premium Taxes | 5,155,801 | 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 | 22,595,598 | 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 | 2,404,497 | 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 | 840,953 | 796,091 | 790,752 | 647,217 | 552,641 | 490,889 | 358,751 | 376,845 | 351,664 |
| Investment earnings | 47,503 | 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 | 1,817,908 | 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 | 42,039,994 | 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 | (273,998) | (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>2011</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> |
| General Fund | | | | | | | | | | |
| Reserved | | | 41,414 | 4,483 | 1,611 | \$ 122,892 | \$ 5,388 | \$ - | \$ - | \$ 125,771 |
| Unreserved | | 342,498 | 730,555 | 735,839 | 675,320 | 550,513 | 229,739 | 291,457 | 920,556 | 1,204,885 |
| Total general fund | | 342,498 | \$ 771,969 | \$ 740,322 | \$ 676,931 | \$ 673,405 | \$ 235,127 | \$ 291,457 | \$ 920,556 | \$ 1,330,656 |
| 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 |
| 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 |
| Restricted for : | | | | | | | | | | |
| Capital Projects | 1,577,223 | | | | | | | | | |
| HUD Programs | 1,318,568 | | | | | | | | | |
| Police Incentive Fund | 3,321 | | | | | | | | | |
| Grant Programs | 24,040 | | | | | | | | | |
| Committed for: | | | | | | | | | | |
| Devou Park Maintenance | 12,064 | | | | | | | | | |
| Police | 119,051 | | | | | | | | | |
| CAD System | 10,523 | | | | | | | | | |
| Debt Service | 113,967 | | | | | | | | | |
| Assigned for: | | | | | | | | | | |
| Community Development | 884,282 | | | | | | | | | |
| Budget Deficit | 202,358 | | | | | | | | | |
| City Building Operations | 73,211 | | | | | | | | | |
| Capital Projects | 185,190 | | | | | | | | | |
| Unassigned | 671,329 | | | | | | | | | |
| Total all other governmental funds | \$ 5,195,127 | \$ 4,086,060 | \$ 5,173,024 | \$ 4,939,441 | \$ 5,071,425 | \$ 2,118,072 | \$ 2,801,122 | \$ 6,324,844 | \$ 7,492,870 | \$ 9,572,046 |

Note: The City implemented GASB Statement 54 in fiscal year 2011.

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

| | Fiscal Year | | | | | | | | |
|--|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--------------------|--------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| Revenues | | | | | | | | | |
| Taxes | 14,643,134 | 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 | 25,362,255 | 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 | 13,684,242 | 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 | 5,394,348 | 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 | 558,465 | 746,322 | 712,072 | 669,260 | 711,786 | 603,286 | 444,832 | 478,752 | 447,020 |
| Investment Earnings | 47,244 | 24,439 | 99,619 | 270,519 | 330,536 | 278,531 | 223,704 | 123,538 | 186,286 |
| Miscellaneous | 2,004,920 | 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 | 61,694,608 | 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 | 4,315,649 | 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 | 15,913,878 | 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 | 13,630,059 | 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 | 6,268,883 | 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 | 455,212 | 504,309 | 2,533,103 | 2,347,048 | 2,309,959 | 2,289,413 | 2,372,300 | 717,870 | 737,049 |
| Community Development | 13,075,265 | 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 | 865,947 | 732,362 | 701,986 | 747,677 | 734,401 | 727,419 | 803,715 | 809,425 | 743,982 |
| Debt Service | | | | | | | | | |
| Principal | 3,131,379 | 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 | 1,503,485 | 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 | 4,300,102 | 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 | 63,459,859 | 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 | (1,765,251) | (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) | | | | | | | | | |
| Proceeds from Issuance of Debt | 2,806,827 | | 4,509,181 | | 1,630,000 | | 12,806,241 | 840,944 | 12,809,056 |
| Proceeds from Bond Refinancing | 315,000 | | | | | | | 4,996,000 | |
| Payment to Refunded Lease Escrow Agent | (303,694) | | | | | | | | |
| Bond Issuance Costs | (59,623) | | | | | | | | |
| Transfers in | 3,565,394 | 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 | (3,865,395) | (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) | 2,458,509 | 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 Assets | 13,647 | 532,740 | 628,554 | | 239,660 | | | | |
| Net change in fund balances | 706,905 | (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 | 7.83% | 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 |
|--------------------|----------------------------------|-------------------------------|--------------------------|
| 2002 | 675,150,120 | 16,878,753 | 0.025% |
| 2003 | 707,354,680 | 17,683,867 | 0.025% |
| 2004 | 732,781,960 | 18,319,549 | 0.025% |
| 2005 | 781,746,160 | 19,543,654 | 0.025% |
| 2006 | 850,553,240 | 21,263,831 | 0.025% |
| 2007 | 866,277,160 | 21,656,929 | 0.025% |
| 2008 | 931,502,360 | 23,287,559 | 0.025% |
| 2009 | 947,889,880 | 23,697,247 | 0.025% |
| 2010 | 914,009,160 | 22,850,229 | 0.025% |
| 2011 | 903,823,920 | 22,595,598 | 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 | |
|------------------------------|---|
| 2011 | 2002 |
| 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 |
| Omnicare | No. Ky. Mental Health and Retardation Board |
| Rosedale Manor | 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 |
|--------------------|----------------------|--------------------------|----------------------------|-------------------------------------|------------------------------|
| 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 |
| 2011 | 2,027,907 | 168,468 | 61,769 | 2,134,606 | 0.299 |

Notes: Property in Covington is reassessed once every four years. City property was reassessed in 2011. The next reassessment will occur in 2015. 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 |
| 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 |
| 2011 | 0.2995 | 1.056 | 0.557 | 0.1480 | 0.122 | 0.1740 | 1.7995 | 1.3005 |

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**

| Taxpayer | 2011 | | | 2002 | | |
|-----------------------------|------------------------|------|---|------------------------|------|---|
| | Taxable Assessed Value | Rank | Percentage of Total City Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total City Taxable Assessed Value |
| Fidelity Properties Inc | \$ 193,937,500 | 1 | 9.09% | \$ 62,951,800 | 1 | 6.97% |
| CPX-Rivercenter Dev/Corp | 127,955,600 | 2 | 5.99% | 131,620,100 | 2 | 3.33% |
| Scott Street Land Co. Inc | 14,960,900 | 3 | 0.70% | | | |
| OZRE Lodging I LLC | 13,947,100 | 4 | 0.65% | | | |
| Atkins & Pearce Manu. | 11,460,000 | 5 | 0.54% | 12,432,500 | 5 | 0.53% |
| J & S Latonia Centre KY LLC | 10,482,000 | 6 | 0.49% | 10,606,500 | 3 | 0.56% |
| Packaging Unlimited | 8,691,500 | 7 | 0.41% | | | |
| Latonia Plaza KY LLC | 6,824,500 | 8 | 0.32% | | | |
| CCO LLC | 6,812,500 | 9 | 0.32% | | | |
| Truss Realty | 6,565,000 | 10 | 0.31% | 7,758,500 | 7 | 0.41% |
| Atria Highland Crossing | | | | 10,100,000 | 4 | 0.54% |
| J G Covington Hotel, LLC | | | | 9,600,000 | 6 | 0.51% |
| Bluffs Apartments, LLC | | | | 7,575,000 | 8 | 0.40% |
| Gibson Greeting Card | | | | 7,118,000 | 9 | 0.38% |
| A.C.C.D. Co. Inc. | | | | 6,486,000 | 10 | 0.34% |
| Total | \$ 401,636,600 | | 18.82% | \$ 266,248,400 | | 13.97% |

Schedule 10
City of Covington
Property Tax Levies and Collections,
Last Nine 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% | \$ 177,563 | \$ 5,002,305 | 99.81% |
| 2004 | 5,076,892 | 4,907,183 | 96.66% | \$ 155,093 | \$ 5,062,276 | 99.71% |
| 2005 | 5,143,225 | 4,926,477 | 95.79% | \$ 191,959 | \$ 5,118,436 | 99.52% |
| 2006 | 5,483,028 | 5,293,287 | 96.54% | \$ 146,162 | \$ 5,439,449 | 99.21% |
| 2007 | 5,656,394 | 5,469,125 | 96.69% | \$ 122,480 | \$ 5,591,605 | 98.85% |
| 2008 | 5,900,071 | 5,672,319 | 96.14% | \$ 143,260 | \$ 5,815,579 | 98.57% |
| 2009 | 6,222,001 | 5,970,349 | 95.96% | \$ 98,348 | \$ 6,068,697 | 97.54% |
| 2010 | 6,385,509 | 6,027,733 | 94.40% | \$ 134,965 | \$ 6,162,698 | 96.51% |
| 2011 | 6,440,016 | 6,041,435 | 93.81% | | 6,041,435 | 93.81% |

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 Nine 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 |
| 2011 | 21,289 | 16,248 | 37,537 | 4.73% | \$ 871 |

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 Nine 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 |
| 2011 | 21,289 | 1.00% | 494.15 |

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

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

Debt Margin Calculation for Fiscal Year 2011

| | |
|---------------------------------|-------------------|
| Assessed value | \$ 2,134,606 |
| Debt limit (10% of assessed val | \$ 213,461 |
| Debt applicable to limit: | |
| General Obligation | \$ 21,289 |
| Total net debt applicable | <u>\$ 21,289</u> |
| Legal debt margin | <u>\$ 192,172</u> |

| | Fiscal Year | | | | | | | | |
|---|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| Debt limit | \$ 213,461 | \$ 207,746 | \$ 205,471 | \$ 198,778 | \$ 196,624 | \$ 183,379 | \$ 172,014 | \$ 169,796 | \$ 167,618 |
| Total net debt applicable to limit | 21,289 | 20,811 | 21,622 | 23,790 | 25,888 | 27,907 | 26,487 | 4,962 | - |
| Legal debt margin | \$ 192,172 | \$ 186,935 | \$ 183,849 | \$ 174,988 | \$ 170,736 | \$ 155,472 | \$ 145,527 | \$ 164,834 | \$ 167,618 |
| Total net debt applicable to the limit as a percentage of debt limit | 9.97% | 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) |
|--------------------|-----------------------|---|---------------------------------------|-----------------------|------------------------------|------------------------------|
| 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% |
| 2011 | 40,640 | 813,003 | 20,005 | 34.6 | 3,914 | 9.7% |

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 | 2011 | | |
|------------------------------|------------------|-------------|--|
| | Employees | Rank | Percentage of Total City Employment |
| Internal Revenue Service | 4,500 | 1 | 20.74% |
| Fidelity Investments | 4,100 | 2 | 18.89% |
| 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 | 12,215 | | 56.29% |

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

| | <u>Full-time-Equivalent Employees as of June 31</u> | | | | | | | | | |
|---------------------------|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <u>Function/Program</u> | <u>2011</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> |
| General government | | | | | | | | | | |
| Management services | 17 | 16 | 16 | 16 | 16 | 17 | 17 | 18 | 17 | 15 |
| Finance | 13 | 13 | 14 | 14 | 14 | 15 | 15 | 16 | 15 | 15 |
| Economic development | 7 | 7 | 7 | 7 | 6 | 5 | 5 | 7 | 6 | 5 |
| Code enforcement | 12 | 12 | 11 | 11 | 9 | 10 | 10 | 10 | 9 | |
| Housing | 15 | 16 | 16 | 16 | 16 | 16 | 16 | 18 | 20 | 24 |
| Police | | | | | | | | | | |
| Officers | 112 | 116 | 116 | 116 | 116 | 116 | 116 | 116 | 113 | 113 |
| Civilians | 28 | 31 | 31 | 31 | 33 | 34 | 34 | 32 | 31 | 31 |
| Fire | | | | | | | | | | |
| Firefighters and officers | 118 | 118 | 118 | 118 | 118 | 118 | 118 | 117 | 117 | 117 |
| Civilians | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Other | | | | | | | | | | |
| Public improvements | 47 | 51 | 35 | 35 | 35 | 36 | 38 | 38 | 38 | 52 |
| Engineering | 4 | 4 | 4 | 4 | 3 | 2 | 2 | 3 | 3 | 3 |
| Parks and recreation | 2 | 2 | 20 | 20 | 18 | 20 | 20 | 20 | 20 | 3 |
| Total | 376 | 387 | 389 | 389 | 385 | 390 | 392 | 396 | 390 | 379 |

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>2011</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> |
| Police | | | | | | | | | | |
| Physical arrests | 5,763 | 5,899 | 5,248 | 5,321 | 5,762 | 5,819 | 5,342 | 5,017 | 5,167 | 4,942 |
| Parking violations | 14,520 | 13,926 | 15,873 | 14,230 | 14,863 | 15,622 | 14,721 | 13,016 | 13,775 | 15,494 |
| Traffic violation | 5,149 | 5,796 | 5,116 | 5,856 | 5,778 | 5,721 | 5,894 | 5,714 | 5,581 | 5,919 |
| Fire | | | | | | | | | | |
| Fire responses | 2,731 | 2,657 | 2,818 | 3,658 | 3,752 | 3,985 | 4,167 | 3,951 | 4,209 | 4,376 |
| Ambulance runs | 9,112 | 8,595 | 10,542 | 11,549 | 10,246 | 9,742 | 8,602 | 7,927 | 7,931 | 7,755 |
| Inspections | 2,058 | 1,966 | 2,212 | 2,440 | 2,540 | 2,576 | 2,521 | 2,696 | 2,618 | 3,291 |

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>2011</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> |
| Police | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Zone offices | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 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 | 120 | 130 | 126 | 126 | 120 | 120 |
| Streetlights | 3246 | 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, 2011

| <u>Federal Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Fund Balance at June 30, 2010</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Fund Balance at June 30, 2011</u> |
|---|----------------------------|--------------------------------------|--------------------------------------|------------------------|------------------------|--------------------------------------|
| U.S. Department of HUD | | | | | | |
| Direct Programs | | | | | | |
| Section 8 Housing Choice Vouchers | 14.871 (M) | KY-133-VO-0054-0F04 | \$ - | \$ 6,722,004 (F) | \$ 6,722,004 (F) | \$ - |
| | | | 868,019 | 10,591 (NF) | (310,775) (NF) | 1,189,385 |
| Community Development Block Grants/ Entitlement Grants | 14.218 | B-02-MC-21-0001 | - | 2,843,414 (F) | 2,843,414 (F) | - |
| | | | - | 510,738 (NF) | 510,738 (NF) | - |
| Homeless Prevention and Rapid Re-Housing (ARRA) | 14.257 (M) | | - | 348,990 (F) | 348,990 (F) | - |
| HOME Program | 14.239 (M) | M-02-MC-21-0200 | 200,903 | 24,459 (NF) | 96,179 (NF) | 129,183 |
| | | M-03-MC-21-0200 | - | 677,098 (F) | 677,098 (F) | - |
| Community Challenge Planning Grants | 14.704 | | - | 24,871 (F) | 24,871 (F) | - |
| U.S. Department of Transportation | | | | | | |
| Pass Through From Kentucky Transportation Cabinet | | | | | | |
| State and Community Highway Safety | 20.600 | | - | 54,231 (F) | 54,231 (F) | - |
| U.S. Department of the Interior | | | | | | |
| Direct Programs | | | | | | |
| Historic Preservation Fund | 15.904 | | - | 2,097 (F) | 2,097 (F) | - |
| U.S. Department of Justice Bureau of Justice Assistance | | | | | | |
| Direct Programs | | | | | | |
| Edward Byrne Memorial Formula Grant Program | 16.579 | | - | 19,088 (F) | 19,088 (F) | - |
| U.S. Environmental Protection Agency | | | | | | |
| Direct Programs | | | | | | |
| Federally Assisted Wastewater Revolving Loan Fund Program (ARRA) | 66.458 | | - | 156,827 (F) | 156,827 (F) | - |
| Brownfield Assessments and Cleanup (ARRA) | 66.818 (M) | | - | 218,555 (F) | 218,555 (F) | - |
| Total Federal Financial Assistance | | | - | 11,067,175 (F) | 11,067,175 (F) | - |
| | | | \$ <u>1,068,922</u> | \$ <u>545,788</u> (NF) | \$ <u>296,142</u> (NF) | \$ <u>1,318,568</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, 2011, which collectively comprise the City of Covington, Kentucky's basic financial statements and have issued our report thereon dated December 13, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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
December 13, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
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 City of Covington, Kentucky's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Covington, Kentucky's major federal programs for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2. 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.

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

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
December 13, 2011

**CITY OF COVINGTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

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): | Section 8 Housing Choice Voucher [CFDA 14.871], HOME Program [CFDA 14.239], Homeless Prevention and Rapid Re-Housing (ARRA) [CFDA 14.257], Brownfield Assessments and Cleanup (ARRA) [CFDA 66.818], Clean Water State Revolving Fund [CFDA 66.458] |
| Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: > all others |
| Low Risk Auditee? | No |

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters to be reported.

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011

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, 2011.

2011-1

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 \$677,098, and the outstanding balance of loans in the HOME program was \$5,852,306 as of June 30, 2011 consisting of 648 loans.

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

Effect: \$16,835 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 went into 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 FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-2

Condition: A haphazard sample of 40 loan files was selected. Our tests disclosed that 2 of the 40 files did not contain 677,098 proper documentation of reinspection of properties that failed to meet property standards. The total amount of the federal grant for the year was \$677,098, and the outstanding balance of loans in the HOME program was \$5,852,306 as of June 30, 2011, consisting of 648 loans.

Criteria: On-site inspections should be performed and documented to determine compliance with property standards and verify the information submitted by owners.

Effect: \$17,000 of the HOME Program loans are questioned for proper inspection 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 documentation of inspections performed on each property is maintained.

Management's Response:

Appropriate procedures have been established to ensure proper documentation of inspections performed on each property. In the findings, the inspections were done but the check box was not checked and dated. There was othre evidence that the inspections were done. This was a case of human error and not a systemic issue.

**CITY OF COVINGTON, KENTUCKY
SCHEDULE OF STATUS OF PRIOR YEAR
FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

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, 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

**CITY OF COVINGTON, KENTUCKY
SCHEDULE OF STATUS OF PRIOR YEAR
FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2011**

- 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.

Current Year Status:

This condition appears to be recurring, and has been reported in the current year.