COVINGTON, KENTUCKY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

THE SPIRIT OF PROGRESS

COVINGTON

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CITY OF COVINGTON, KENTUCKY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Issued by:
Finance Department

Lisa Goetz, CPA
Finance Director

CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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INTRODUCTORY SECTION

CITY OF COVINGTON

20 WEST PIKE STREET • COVINGTON, KENTUCKY 41011-2298

OFFICE OF THE CITY MANAGER

December 31, 2014

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, 2014.

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. 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 Clark Schaefer, Hackett Certified Public Accountants, with a local office in Cincinnati, Ohio. 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, 2014, 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, 2014, 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 requires 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 40,956 based on the 2013 U.S. Census. 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 tasks, approving 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. Elections for the four City Commissioners were in November of 2014. The term of the new City Commission begins on January 1, 2015. The next election for the Board of Commissioners will be held in November of 2016 and for the Mayor in November of 2016.

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 and recyclable materials 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 Fund.

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 estimates and 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 Board of Commissioners for review. A structurally balanced budget is required by State law and the Kentucky Constitution. 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 Board of 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 Board of 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 61-65 as part of the required supplementary information. For governmental funds with appropriated annual budgets for non-major governmental fund, this comparison is presented in the supplement section that starts on page 73.

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: The City of 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 five years has positioned the City for economic growth in the foreseeable future. Employment growth and a reduction in the unemployment rate is still the most important issue facing the economy over the coming years. The local Chamber of Commerce's Economic Advisory Committee consensus forecast predicts continued slow recovery and a slight drop in the unemployment rate from 8.2% to 6.5%.

The City is heavily reliant on economically sensitive revenue. Occupational license fees (payroll tax and net profit taxes) represent 53.51% of all General Fund Revenue. Detailed information can be found in the Management Discussion & Analysis in the Financial Section of this report.
The City had to amend its ordinance to change the fund balance policy due to sluggish local economy of past three years. However, during this time the City reduced its personnel costs. Overall workforce was reduced by approximately 2% (from 333 to 326 employees); significant health care concessions from its three labor unions which represent 80% of workforce. The City is self-insured for health insurance for its employees. Four years ago the City was paying approximately $20,000 Per Employee per Year (PEPY). Currently the City is paying approximately $14,000 PEPY. In addition, the City relinquished its emergency dispatch center and allowed the County to resume this service for residents. The City also reorganized and consolidated several departments and divisions in past two years which attributed to the overall reduction in workforce and personnel costs noted above.

Flat revenue is predicted in the near future, so during the upcoming budget process the City will continue to find cost savings and expense trimming options for 2016. The 2015 budget has trimmed costs on overtime and eliminated staff positions. In October of 2014 the City refinanced a variable rate bond with an interest rate swap into a fixed rate bond issue. It is projected to save the City $2 million for the pension plans over time, thereby reducing the unfunded liability portion by more than 50%.

In July 2014, the City secured a renewal of the $3.5 million dollar TAN (tax anticipation note). The City plans to repay this note by $350,000 each year for the next ten years utilizing collections of delinquent property taxes, waste fees, occupational license fees, unpaid City parking citations and recovery of misappropriated funds.

In August of 2014 the City refinanced a variable rate bond to a fixed rate and incurred a new $15 million bond for continued emphasis on reinvestment in infrastructure and economic development have not only stabilized the City's financial status but provided resources to replenish depleted fund balances, jump start reinvestment in infrastructure, and economic development efforts.

The City of Covington has several completed and in progress infrastructure improvement projects that began in the FY 2013-2014 budget year. Several of these projects were funded through federal pass through transportation funding. Some of these projects were initiated in FY 14, and carried over into FY 15.

Southern and Latonia Reconstruction: $950,000; 80% SNK: Complete reconstruction of Latonia Ave from Madison to Southern and Southern Avenue from Latonia to Grace. This is a heavily traveled roadway that had surpassed its useful life to the point where resurfacing was no longer a viable option.

Caroline Underpass Reconstruction: $620,000; 80% SNK: Complete reconstruction of Caroline Avenue from 34th to 36th Street. This is a heavily traveled roadway that had surpassed its useful life to the point where resurfacing was no longer a viable option. The grade on the roadway was changed and a new storm water system was constructed to alleviate flooding during heavy rain events.

Madison Avenue Streetscape: $635,000; 80% grant: Utilities were placed underground and all sidewalks were replaced on Madison Avenue from 5th to 8th Street. This is one of the key business corridors in the City.

6th Street and Scott Street Design and Construction: $1.7 million: A grant to cover 80% of the costs of both the design and construction was approved. Design will take place this year and construction will begin in the spring. The project will replace the sidewalks, place utilities underground, install mast arm traffic signals, and resurface the road on Scott between 4th and 6th and on 6th Street from Scott to Russell. These are both key business corridors and connectors within the City.

Demolitions: 52 vacant and dilapidated buildings were demolished throughout the City to help improve the building stock and safety issues. 48 more are in the process of being demolished FY 15.

Phase 1 Riverfront Commons: $328,100 in funds for engineering design and permitting of improvements along the Ohio River were allocated by the City. $14 million Tiger Grant was submitted but not funded. City has now applied for state Transportation Assistance Program funds and is awaiting results in the spring of 2015. Federal pass through SNK funds for a portion of the trail system was awarded this year, with match funding from a third party. Ultimately the Riverfront Commons project will include the development of all the riverfront property within the City and will be part of a complete multi use trail that will ultimately connect the 6 river cities from Ludlow to Fort Thomas. The Covington portion will include a large plaza area that will serve as a gathering space and a park/recreation area that will attract residents and visitors of all ages. Access to the river will also be provided for fishing, kayaking, and other recreational activities.

Lake Park Drive reconstruction: $190,000. This is a heavily traveled industrial roadway that had surpassed its useful life to the point where resurfacing was no longer a viable option.

Mainstrasse Parking Lot Improvement: $100,000. This is the main parking facility for visitors to the Mainstrasse area. The project included resurfacing the lot, TANK bus stop improvements, plaza reconstruction, a kiosk directing visitors to the amenities in Mainstrasse, and landscaping/green infrastructure to improve the drainage and aesthetics of the lot.

Retained ABM Facilities Management Group to manage parking: Prior to ABM taking over parking, the management of parking was poorly organized and handled by several departments. ABM has brought organization, coordination, consistency, and efficiency to parking within the City.

Martin Luther King Jr. Boulevard reconstruction/widening plus landscaping: 12th Street/MLK was completely reconstructed and widened from the interstate to Greenup Street. This project included placing the utilities underground, decorative lighting throughout, and decorative pavers around the Cathedral.

KY Route 16 reconstruction/widening: KY Route 16 was completely reconstructed and widened in South Covington allowing for better access and economic development opportunities.

Purchased and demolished mobile home Park at Patton: A mobile home park in Austinburg was creating a variety of issues for the neighborhood. The mobile home park was purchased, the tenants were relocated, and the site was demolished and graded.

Sidewalk replacement: $3 million in South Covington and Latonia and $3 million planned for this year in north Covington. All of the sidewalk blocks in South Covington that were 10% deteriorated or worse were replaced. All of the sidewalk blocks in Latonia that were 25% deteriorated or worse were replaced. In the North Covington section, 40% or worse will be replaced in FY 2014-2015. The Board of Commissioners approved a sidewalk maintenance plan for future sidewalk improvements in the City, recognizing that property owners are ultimately responsible for maintenance, but offering several financing options to assist property owners. The improvements make the City a much more walkable place for residents and visitors.

Licking River Greenway: Phase II of the Licking River Greenway began. This Greenway includes improvements and access along the Licking River in Covington and beyond.

Russell Street Repaving: SNK Funding was awarded to resurface Russell Street. By coordinating with NKWD and saving on restoration costs they were able to improve the low water pressure identified by the Covington Fire Department and new hydrants were installed along with the water main replacement.

Pointe Benton Storm Water Improvements: The City received 2 $300,000 KIA Grants to construct projects that will help alleviate the flooding issues in the Peaselburg Neighborhood.

Devou Wall reconstruction: The City began a retaining wall reconstruction project on a failing structure in a key access location to Devou Park. The storm system is also being replaced and upgraded to allow for better drainage.

Additionally, the City has several development projects underway including the following:

1. Hotel Covington – 638 Madison Avenue
   The project is underway. The project is anticipated to utilize a variety of complex funding sources, including historic tax credits, tourism tax credits, and new market tax credits, along with equity investments. Hotel Covington is an approximate $25 million project and will produce more than 100 new jobs.

2. 409-415 Scott Street
   The City has a development agreement with Alan Haehnle for the redevelopment of the building for the City's Bike Patrol on the first floor and new development on the upper floors. Interior demo and historic tax credits are underway.

3. 5th Street Properties
   Floyd's 7-11 (along 5th Street between Scott and Madison) was purchased by the City and will be packaged with the Laundromat property next door and 11 East 5th Street. An RFP for developers has been issued. Multiple entities are interested and it will be a competitive process.

4. Martin Luther King, Jr. Street state owned properties (remnants from 12th Street/MLK Widening)
   The State auctioned off the buildings along MLK to various bidders. Several have been acquired by private parties and development plans are underway. The City is in discussion with the state on the additional remaining right of way property.

5. 501 Main Street
   There is interest in the property from several parties, next steps and future uses of the site are currently being evaluated.

6. 114 Pike Street - Tanino's
   The City sold this property to a local developer who is rehabbing the upper floor into residential units and the space on first floor has been occupied by Bad Girl Ventures, a business accelerator for women entrepreneurs.

7. 112 Pike Street - Pike Star / UpTech
   The City, along with several partners, assisted in the redevelopment of the Pike Star building at 112 Pike street. The City is subsidizing the non-profit corporation, Up-Tech, which is an affiliate of NKU's Department of Informatics and the Northern Kentucky e-zone. The City is already realizing the successes of UpTech, with 3DLT receiving funding from investors and it is relocating to RiverCenter office towers on the City's riverfront. Additionally, the upper floors of the property are being renovated for residential uses, utilizing a CDBG Grant from the City.

8. Market Lofts – 209 West Pike Street
   The City assisted the developer of the Market Lofts, a residential redevelopment, on parking lot usage and improvements that produced 12 new apartments in the urban core.

9. Lincoln Grant Scholar House
   The Lincoln Grant School building, at 824 Greenup Street, is being proposed as the future location of a Family Scholar House (http://www.familyscholarhouse.org/). In order to make the project happen, the developer has applied for tax credits. Closing on the property would be in the spring, after Tax Credit approval.

10. CDBG Upper Floor Residential Rehab Projects utilizing City loan/grant sources.
    a. 112 Pike
    b. 14 E 5th Street
    c. 605 Madison
    d. 2 W Pike Street
    e. 7-9 E 5th Street

11. 629 Madison /Mutual Building
    The City provided assistance for the redevelopment of the Mutual Building into a mixed use redevelopment, overcoming several obstacles to successfully redevelop one of the most prominent buildings in the urban core. The building will be developed into 12 market rate residential rental units and first floor commercial space.

12. 27 W 7th Street
    The City worked with the property owners to sell and facilitate the redevelopment of the building for offices and a microbrewery. The City facilitated access to the rear of the building through the City's parking lot to allow for the business to locate and for future growth.

13. 625 Main / Commonwealth Bistro and 602 Main / Frida
    The City provided resources to facilitate the redevelopment of two blighted structure into niche restaurants in the City's entertainment district.

14. New Jobs
    In addition, the City's Recruitment and Retention efforts impacted and identified over 250 potential expansion jobs and over 300 newly recruited jobs in FY 14.

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, 2012. This represented twenty consecutive years 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 City did not prepare a CAFR for Fiscal Year June 30, 2013, due to the extenuating circumstances surrounding the misappropriation of funds case begun in August of 2013.

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 Clark Schaefer Hackett. 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

Lisa A. Goetz
Finance Director

City of Covington, Kentucky
Elected and Appointed Officials
June 30, 2014

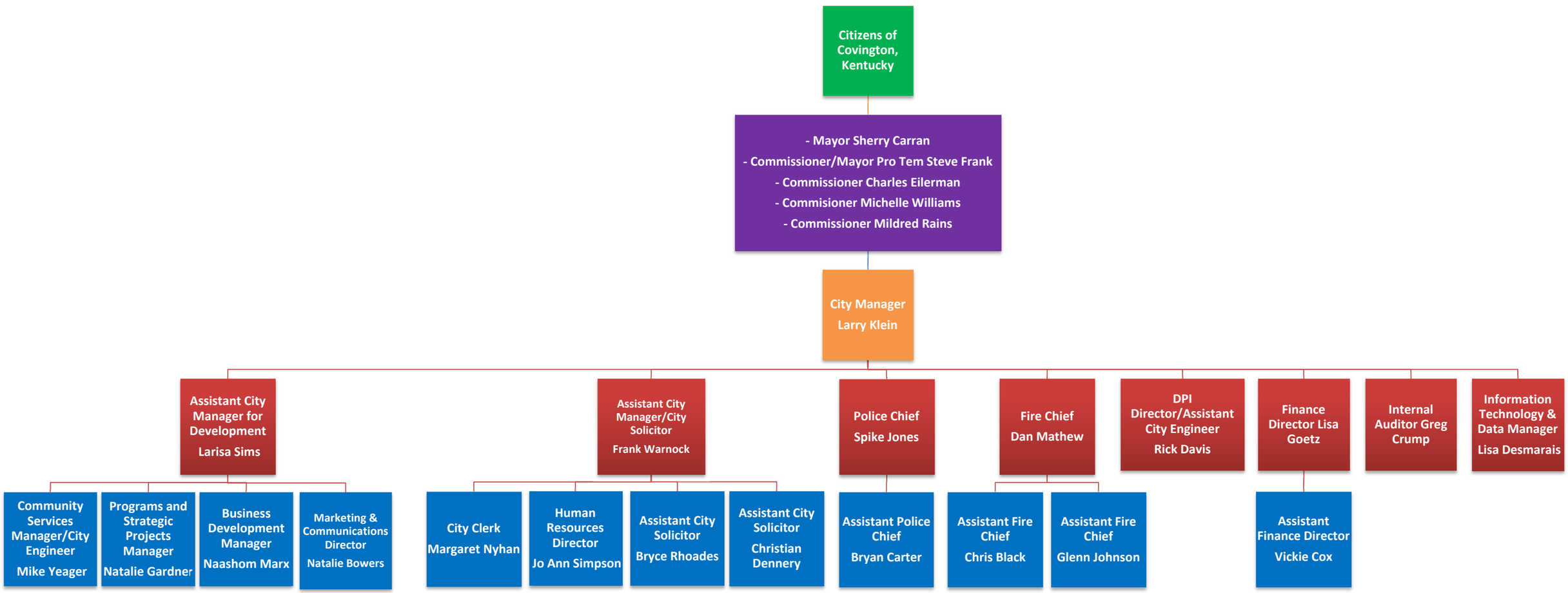
Elected Officials

Mayor	Sherry Carran
Commissioner/Mayor Pro Tem	Steve Frank
Commissioner	Charles Eilerman
Commissioner	Mildred Rains
Commissioner	Michelle Williams

Appointed Officials

City Manager	Larry Klein
Assistant City Manager for Development	Larisa Sims
Assistant City Manager/City Solicitor	Frank Warnock
Finance Director	Lisa Goetz
City Operations Director	Lisa Desmarais
Internal Auditor	Greg Crump
City Clerk	Margaret Nyhan
Interim City Solicitor	Christian Dennery
Chief of Police	Spike Jones
Fire Chief	Dan Mathew
DPI Director/Assistant City Engineer	Rick Davis
Community Service Manager/City Engineer	Mike Yeager
Human Resources Director	Jo Ann Simpson

City of Covington
City-Wide Organizational Chart
June, 2014



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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.. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Devou Properties, Inc., is based on solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standards

As discussed in Note 13, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 67, *Financial Reporting for Pension Plans–an amendment of GASB Statement No. 25* and Statement No. 68, *Accounting and Financial Reporting for Pensions–an amendment of GASB Statement No. 27*. Our opinions were not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014 on our consideration of the City of Covington'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Covington's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 29, 2014

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The management discussion and analysis (MD&A) of the City of Covington, Kentucky's (the City's) financial statements provides readers a narrative overview and analysis of the City's financial position and activities for the fiscal year ended June 30, 2014. The information presented here should be read in conjunction with the City's basic financial statements which immediately follow this overview and analysis.

Financial Highlights

Some of the City's financial highlights for the fiscal year ended June 30, 2014 include:

- The assets and deferred outflows of resources exceeded its liabilities at the close of the most recent fiscal year by $24,473,322 (*net position*).
- The City's total net position decreased during the fiscal year by $368,542, or 1%.
- The City's total expenses were $60,473,108, a decrease of $1,224,668.
- Program revenues of $20,187,141 reduced the net cost of the City's functions to be financed from the City's general revenue to $40,285,967.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of $8,912,925, a decrease of $9,524,940 in comparison with the prior year. Approximately 24% of this amount ($2,103,342) is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the fiscal year end, unrestricted fund balance for the general fund was $2,178,928, or approximately 5% of total general fund expenditures.
- The City's total outstanding long-term debt decreased by $2,771,777 during the fiscal year because of the payment of bond and lease payments.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

The *statement of net position* presents financial information on all of the City's assets/deferred outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

The government-wide financial statements include functions of the City, including police, fire, street maintenance, parks and recreation, and general administration services, that are principally supported by licenses, fees, taxes and intergovernmental revenues (*governmental activities*).

The government-wide financial statements include not only the City itself (known as the *primary government*), but also Devou Properties, Inc., a legally separate non-profit organization. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The Municipal Properties Corporation, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

***Governmental Funds*.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Neighborhood Stabilization Program Fund, and the Capital Improvement Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

The City adopts an annual appropriation budget for its governmental funds. Budgetary comparison schedules have been provided for its general and special revenue major funds in required supplementary information to demonstrate compliance with its budgets.

***Proprietary Funds*.** Proprietary funds can be classified into two subcategories; enterprise funds and internal service funds. The City does not have any enterprise funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the management of its retained risks and for self-insured for medical and dental coverage for its employees. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Because both of these services benefit governmental functions, they have been included within *governmental activities* in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds are not available to support the City'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 Retirement Fund and Employee's Retirement Fund are closed pension funds held solely for trust beneficiaries.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by $24,473,322, at the close of the most recent fiscal year.

City's Net Position

	Governmental Activities		
		Restated	
	2014	2013	Change
Current and other assets	$ 21,568,048	$ 28,368,609	$(6,800,561)
Capital assets	59,932,539	54,489,483	5,443,056
Total assets	81,500,587	82,858,092	(1,357,505)
Deferred outflows of resources	243,094	711,805	(468,711)
Long-term liabilities	49,437,125	52,918,302	(3,481,177)
Other liabilities	7,833,234	5,809,731	2,023,503
	57,270,359	58,728,033	(1,457,674)
Net position:			
Net investment in capital assets	29,360,778	33,666,204	(4,305,426)
Restricted	6,653,643	4,561,466	2,092,177
Unrestricted (deficit)	(11,541,099)	(13,385,806)	1,844,707
Total net position	$ 24,473,322	$ 24,841,864	$ (368,542)

By far, the largest portion of the City's net position ($29,360,778) reflects its investment in capital assets (e.g., land and improvements, construction in progress, buildings and improvements, machinery and equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position ($6,653,643) represents resources that are subject to external restrictions on how they may be used. Any remaining balance is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City's overall net position decreased from the prior fiscal year. The reasons for this overall decrease are discussed in the following section.

City's Changes in Net Position

	Governmental Activities		
	2014	*Restated* 2013	Change
Program revenues:			
Charges for services	$ 7,027,222	$ 6,538,387	$ 488,835
Operating grants and contributions	10,842,196	11,932,368	(1,090,172)
Capital grants and contributions	2,317,723	1,290,469	1,027,254
Total program revenues	20,187,141	19,761,224	425,917
General revenues:			
Taxes	39,770,408	40,049,286	(278,878)
Investment earnings	4,287	96,889	(92,602)
Miscellaneous	159,730	577,261	(417,531)
Total general revenues	39,934,425	40,723,436	(789,011)
Total revenues	60,121,566	60,484,660	(363,094)
Expenses:			
General government	5,916,248	4,028,857	1,887,391
Police	14,177,725	15,464,519	(1,286,794)
Fire	13,060,943	13,727,885	(666,942)
Public improvements	13,769,904	10,916,212	2,853,692
Recreation	-	683,742	(683,742)
Community development	11,159,338	13,912,337	(2,752,999)
Parking garage	734,598	783,059	(48,461)
Interest on long-term debt	1,654,352	2,181,165	(526,813)
Total expenses	60,473,108	61,697,776	(1,224,668)
Special item	(17,000)	(102,445)	85,445
Change in net position	(368,542)	(1,315,561)	947,019
Net position beginning of year	24,841,864	26,157,425	(1,315,561)
Net position end of year	$ 24,473,322	$ 24,841,864	$ (368,542)

During the current fiscal year, net position for governmental activities decreased $368,542 from the prior fiscal year for an ending balance of $24,473,322. Total revenues decreased by $363,094, or less than 1%. Operating grants and contributions decreased as the City was granted less housing voucher funding in 2014. Capital grants and contributions increased due to project-specific state funding and new grant awards. However, the City was able to reduce its expenses by $1,224,668, or 2%. In response to declining tax revenue, an on-going review of expenses have resulted in cost savings. Please note that expenses by category are altered from the previous year due to department restructuring.

The special item amounts of $17,000 and $102,445 in 2014 and 2013, respectively, represent amounts identified as alleged embezzlement transactions incurred in prior years by the former finance director. The City has filed lawsuits to recover these funds and is currently involved in litigation.

Financial Analysis of Governmental Funds

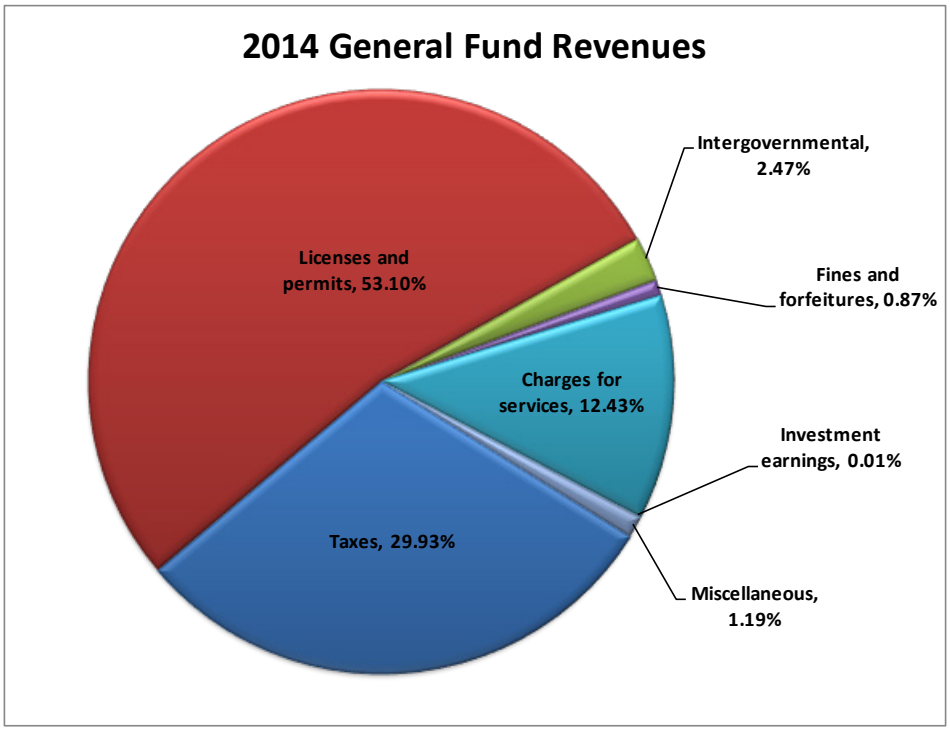
At June 30, 2014, the City's governmental funds reported combined fund balances of $8,912,925, a decrease of $9,524,940 in comparison with the prior year. The majority of this decrease occurred in the Capital Improvement Fund, discussed below. Approximately 24% of this amount ($2,103,342) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable, restricted, or committed to indicate that it is 1) not in spendable form ($25,515), 2) restricted for particular purposes ($6,356,203), or 3) committed for particular purposes ($427,865).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $2,178,928, or 5% of total General Fund expenditures. The following schedules present a summary of the General Fund revenues and expenditures for the current fiscal year.

General Fund Revenues for the Fiscal Year Ended June 30,

	2014	Percent of Total	2013	Percent Change
Taxes	$ 14,291,815	29.93%	$ 13,725,616	4.13%
Licenses and permits	25,353,330	53.10%	25,979,427	-2.41%
Intergovernmental	1,179,402	2.47%	839,800	40.44%
Fines and forfeitures	414,625	0.87%	367,591	12.80%
Charges for services	5,936,837	12.43%	6,063,670	-2.09%
Investment earnings	3,181	0.01%	95,694	-96.68%
Miscellaneous	564,563	1.19%	382,851	47.46%
Total Revenue	$ 47,743,753	100.00%	$ 47,454,649	0.61%

Revenue remained fairly consistent during the fiscal year, with total General Fund revenue only increasing by $289,104, or less than 1%.



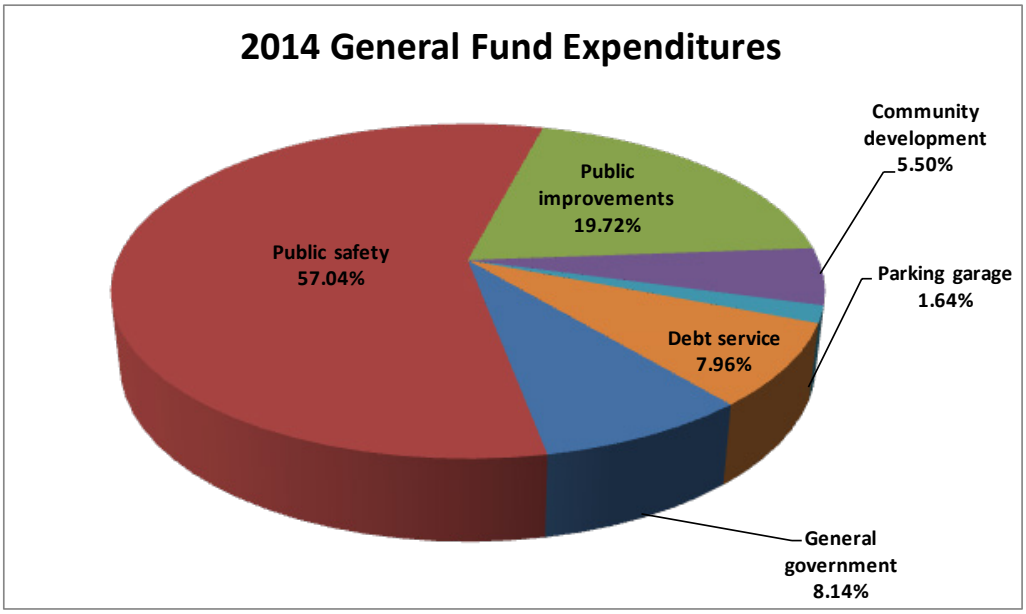
Taxes, which include real estate taxes, personal property taxes, and insurance premium taxes increased by $566,199, or 4% from the prior fiscal year. Total taxable assessed value increased by $114 million, or 6%, to remain at approximately $2 billion.

License and permit revenue includes both a payroll occupational license fee and a net profit occupational license fee on businesses. License and permit revenue decreased by $626,097, or 2.4%, 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 expenditures.

General Fund Expenditures for the Fiscal Year Ended June 30,

		2014	Percent of Total		2013	Percent Change
General government	$	3,629,368	8.14%	$	3,526,196	2.93%
Public safety		25,435,948	57.04%		26,197,607	-2.91%
Public improvements		8,791,581	19.72%		5,994,547	46.66%
Recreation		-	0.00%		437,483	-100.00%
Community development		2,454,467	5.50%		4,146,502	-40.81%
Parking garage		731,835	1.64%		776,758	-5.78%
Debt service		3,546,286	7.96%		1,877,930	88.84%
Total Expenditures	$	44,589,485	100.00%	$	42,957,023	3.80%

Total General Fund expenditures increased by $1,632,462, or 3.80%, primarily due to funding more debt service expenditures that had been paid by other funds in previous years.



The Neighborhood Stabilization Program is a cost reimbursement HUD-funded program. There is no fund balance, and therefore, no change in fund balance to report.

The Capital Improvement Fund, the City's remaining major governmental fund, is used to account for the City's acquisition and construction of public improvements and equipment. The fund balance decreased $10,169,859 to $4,705,268. The City entered into a lease agreement in December 2012 in the amount of $16.04 million to finance various public improvements. At the end of the fiscal year, the City had $2,138,059 remaining from this lease to fund its planned capital improvements.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City Commission approved revisions to the General Fund budget. The final amended budget resulted in a $658,610 increase in appropriations and transfers, while the final budgeted revenue and transfers was increased by $1,019,837. The budget amendments were made to more closely reflect the anticipated actual results for the fiscal year and to formally adopt as part of the budget changes in staff and activities that were approved by the City Commission during the fiscal year.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental activities as of June 30, 2014 amounts to $59,932,539 (net of accumulated depreciation), an increase of $5,443,056 from the prior year. This investment in capital assets includes land and improvements, buildings and improvements, machinery and equipment, vehicles, infrastructure and construction in progress. The total increase in capital assets for the current fiscal year was approximately 10%, as the City continued work on its capital plans financed by the $16.04 million in capital lease financing issued in 2012.

Capital Assets at June 30,

(Net of Depreciation)

	Governmental Activities	
	2014	2013
Land	$ 14,424,312	$ 14,339,320
Land improvements	1,755,297	1,717,703
Buildings	15,620,738	14,299,467
Building improvements	5,513,113	2,924,807
Machinery and equipment	1,358,532	1,521,925
Vehicles	1,750,262	2,033,469
Infrastructure	18,842,076	17,617,964
Construction in progress	668,209	34,828
Totals	$ 59,932,539	$ 54,489,483

Additional information on the City's capital assets can be found in Note 4.

Long-term debt. At the end of the current fiscal year, the City had outstanding notes, bonds and capital leases of $43,799,820, which is backed by the full faith and credit of the City.

Outstanding Long-term Debt Obligations at June 30,

	Governmental Activities	
	2014	2013
Mortgage bonds and notes	$15,825,835	$16,863,621
Capital Leases	27,973,985	29,707,976
Total	$43,799,820	$46,571,597

The City issues and incurs debt in order to fund capital improvement projects, purchase capital equipment and facilities, and respond to other economic development needs. The City's outstanding debt decreased by $2,771,777 (6%) from the prior year, as the City met its scheduled debt service requirements.

The Kentucky Constitution states the total principal amount of 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 is $214 million.

Additional information on the City's long-term debt can be found in Note 7.

Economic Factors and Next Year's Budget

The budget for the 2015 fiscal year was developed to structurally balance its operating budget while maintaining current levels of City services as much as possible. Positions went unfilled and two positions were removed from the budget. Capital investment in public safety infrastructure and fleet will be funded by a $15 million bond. The City is committed to a structurally balanced budget and will not permit further erosion of the General Fund balance.

Unless significant concessions can be realized from the three collective bargaining units, more layoffs may be necessary. An action plan is currently being developed to ensure financial stability and growth in fiscal year 2015 and beyond.

The economic outlook is grim for the coming year. Revenue estimates have been unchanged.

Requests for Information

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 the Finance Department, 20 West Pike Street, Covington, KY 41011.

CITY OF COVINGTON, KENTUCKY
Statement of Net Position
June 30, 2014

	Primary Government	Component Unit
	Governmental Activities	Devou Properties, Inc.
Assets		
Cash and cash equivalents	$ 7,726,609	$ 1,903,105
Cash with fiscal agent	2,138,059	-
Cash held in escrow	642,746	
Receivables (net of allowance for doubtful accounts)		
Taxes	4,961,391	-
Intergovernmental	791,298	-
Notes	2,951,019	-
Accounts	977,209	72,061
Due from fiduciary activities	1,354,202	-
Prepaid items	25,515	11,775
Nondepreciable capital assets	16,847,818	-
Depreciable capital assets, net	43,084,721	67,960
Total assets	81,500,587	2,054,901
Deferred Outflows of Resources		
Deferred outflows - hedges	243,094	-
Liabilities		
Accounts payable	3,968,303	31,779
Accrued liabilities	651,698	257,102
Claims payable	1,659,614	-
Accrued interest payable	59,661	-
Unearned revenue	1,250,864	-
Derivative instruments - interest rate swap	243,094	
Noncurrent liabilities:		-
Due within one year	4,226,937	-
Due in more than one year:		-
Net pension liability	4,256,504	-
Other	40,953,684	-
Total liabilities	57,270,359	288,881
Net Position		
Net investment in capital assets	29,360,778	67,960
Restricted for:		
Capital improvements	2,614,198	-
Debt service	401,000	
HUD programs	3,622,306	-
Other purposes	16,139	-
Unrestricted (deficit)	(11,541,099)	1,698,060
Total net position	$ 24,473,322	$ 1,766,020

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Statement of Activities
Fiscal Year Ended June 30, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position	
					Primary Government	Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Devou Properties, Inc.
Functions/Programs						
Primary Government						
Governmental activities:						
General government	$ 5,916,248	$ 940,479	$ 171,075	$ 2,154,649	$ (2,650,045)	$ -
Police	14,177,725	58,002	484,786	163,074	(13,471,863)	-
Fire	13,060,943	1,391,914	477,569	-	(11,191,460)	-
Public improvements	13,769,904	2,343,079	1,008,327	-	(10,418,498)	-
Community development	11,159,338	738,833	8,700,439	-	(1,720,066)	-
Parking garage	734,598	1,554,915	-	-	820,317	-
Interest on long-term debt	1,654,352	-	-	-	(1,654,352)	-
Total governmental activities	60,473,108	7,027,222	10,842,196	2,317,723	(40,285,967)	-
Component Unit						
Devou Properties, Inc.	977,222	892,252	-	-	-	(84,970)
Total	$ 61,450,330	$ 7,919,474	$ 10,842,196	$ 2,317,723	(40,285,967)	(84,970)
General Revenues:						
Taxes:						
Real property taxes					6,085,654	-
Personal property taxes					764,100	-
Public service taxes					2,131,042	-
Taxes, levied for bank deposits					65,134	-
Insurance premium taxes					5,672,059	-
Payroll taxes					22,222,546	-
Net profit taxes					2,829,873	-
Investment earnings					4,287	1,046
Miscellaneous					159,730	-
Special item					(17,000)	-
Total general revenues and special item					39,917,425	1,046
						-
Change in net position					(368,542)	(83,924)
Net position beginning of year, *restated*					24,841,864	1,849,944
Net position end of year					$ 24,473,322	$ 1,766,020

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Balance Sheet
Governmental Funds
June 30, 2014

	General	Neighborhood Stabilization Program	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 183,186	$ -	$ 4,587,985	$ 1,944,293	$ 6,715,464
Cash with fiscal agent	-	-	2,138,059	-	2,138,059
Cash held in escrow	1,000	-	-	641,746	642,746
Receivables (net of allowance for doubtful accounts):					
Taxes	4,961,391	-	-	-	4,961,391
Intergovernmental	77,955	-	-	713,343	791,298
Notes	515,520	2,435,499	-	-	2,951,019
Accounts	849,945	-	-	127,264	977,209
Due from other funds	926,349	226,517	59,624	430,363	1,642,853
Due from fiduciary funds	1,354,202	-	-	-	1,354,202
Prepaid items	25,515	-	-	-	25,515
Total assets	$ 8,895,063	$ 2,662,016	$ 6,785,668	$ 3,857,009	$ 22,199,756
Liabilities:					
Accounts payable	$ 1,435,193	$ 226,517	$ 2,033,650	$ 150,427	$ 3,845,787
Accrued liabilities	651,698	-	-	-	651,698
Due to other funds	1,224,684	-	46,750	1,208,673	2,480,107
Unearned revenue	756,169	-	-	494,695	1,250,864
Total liabilities	4,067,744	226,517	2,080,400	1,853,795	8,228,456
Deferred Inflow of Resources:					
Unavailable revenue	2,622,876	2,435,499	-	-	5,058,375
Fund balances:					
Nonspendable	25,515	-	-	-	25,515
Restricted	-	-	4,705,268	1,650,935	6,356,203
Committed	-	-	-	427,865	427,865
Unassigned	2,178,928	-	-	(75,586)	2,103,342
Total fund balances	2,204,443	-	4,705,268	2,003,214	8,912,925
Total liabilities, deferred inflows of resources and fund balances	$ 8,895,063	$ 2,662,016	$ 6,785,668	$ 3,857,009	$ 22,199,756

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2014

Total fund balances - governmental funds		$ 8,912,925
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		59,932,539
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		5,058,375
Internal service funds are used by management to charge the cost of certain activities, such as liability and medical insurance, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.		66,269
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds payable	15,825,835	
Capital lease payable	27,973,985	
Accrued interest payable	59,661	
Net pension liability	4,256,504	
Compensated absences	1,380,801	
Total		(49,496,786)
Net position of governmental activities		$ 24,473,322

CITY OF COVINGTON, KENTUCKY
Statement of Revenues, Expenditures and Changes
in Fund Balances
Governmental Funds
Fiscal Year Ended June 30, 2014

	General	Neighborhood Stabilization Program	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 14,291,815	$ -	$ -	$ -	$ 14,291,815
Licenses and permits	25,353,330	-	-	-	25,353,330
Intergovernmental	1,179,402	196,123	-	11,767,098	13,142,623
Charges for services	5,936,837	-	-	-	5,936,837
Fines and forfeitures	414,625	-	-	-	414,625
Investment earnings	3,181	-	-	1,106	4,287
Miscellaneous	564,563	7,009	-	474,017	1,045,589
Total revenues	47,743,753	203,132	-	12,242,221	60,189,106
Expenditures:					
Current:					
General government	3,629,368	-	4,963,902	397,271	8,990,541
Police	13,168,105	-	-	777,560	13,945,665
Fire	12,267,843	-	-	477,569	12,745,412
Public improvements	8,791,581	-	-	24,998	8,816,579
Community development	2,454,467	20,398	9,776	8,380,327	10,864,968
Parking garage	731,835	-	-	-	731,835
Debt service:					
Principal	2,326,777	-	-	445,000	2,771,777
Interest	1,219,509	-	-	535,460	1,754,969
Capital outlay	-	182,734	5,196,181	2,756,656	8,135,571
Total expenditures	44,589,485	203,132	10,169,859	13,794,841	68,757,317
Excess (deficiency) of revenues over (under) expenditures	3,154,268	-	(10,169,859)	(1,552,620)	(8,568,211)
Other financing sources (uses):					
Transfers in	123,099	-	-	1,264,630	1,387,729
Transfers out	(2,238,043)	-	-	(123,099)	(2,361,142)
Sale of assets	33,684	-	-	-	33,684
Total other financing sources (uses)	(2,081,260)	-	-	1,141,531	(939,729)
Special item	(17,000)	-	-	-	(17,000)
Net change in fund balances	1,056,008	-	(10,169,859)	(411,089)	(9,524,940)
Fund balance, beginning of year, *restated*	1,148,435	-	14,875,127	2,414,303	18,437,865
Fund balance, end of year	$ 2,204,443	$ -	$ 4,705,268	$ 2,003,214	$ 8,912,925

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Fiscal Year Ended June 30, 2014

Net change in fund balances - total governmental funds	$ (9,524,940)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense:	
Capital additions	12,404,238
Depreciation expense	(6,732,532)
In the statement of activities, loss on disposal of capital assets is reported, whereas only proceeds from sales are reported in the governmental funds.	(228,650)
Revenue in the statement of activities that do not provide current financial resources are reported as deferred inflows in the governmental funds.	131,548
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Compensated absences	(136,307)
Interest on long-term debt	100,617
Change in net pension liability	845,707
Repayment of bonds, notes and lease principal is an expenditure in the governmental funds, whereas the payments reduce long-term liabilities in the statement of net position	2,771,777
Change in net position of governmental activities	$ (368,542)

CITY OF COVINGTON, KENTUCKY
Statement of Net Position
Proprietary Funds
June 30, 2014

	Governmental Activities
	Internal Service Funds
Assets	
Cash and cash equivalents	$ 1,011,145
Due from other funds	837,254
Total assets	1,848,399
Liabilities	
Accounts payable	122,516
Claims payable	1,659,614
Total liabilities	1,782,130
Net Position	
Unrestricted	66,269
Total net position	$ 66,269

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Statement of Revenues, Expenses
and Changes in Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2014

	Governmental Activities
	Internal Service Funds
Operating revenues:	
Insurance premiums	$ 4,755,895
Other	20,090
Total operating revenues	4,775,985
Operating expenses:	
Contractual services	1,278,071
Claims and judgments	4,471,458
Total operating expenses	5,749,529
Operating loss	(973,544)
Non-operating revenues (expenses):	
Investment income	131
Loss before transfers	(973,413)
Transfers in	973,413
Change in net position	-
Net position, beginning of year, *restated*	66,269
Net position, end of year	$ 66,269

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2014

	Governmental Activities Internal Service Funds
Cash flows from operating activities:	
Cash received from other funds	$ 5,520,772
Cash received from other income	20,090
Cash payments to other activities	(94,898)
Cash payments for claims	(5,733,182)
Net cash used by operating activities	(287,218)
Cash flows from noncapital financing activities:	
Transfers	973,413
Cash flows from investing activities:	
Interest income	131
Net change	686,326
Cash and cash equivalents, beginning of year	324,819
Cash and cash equivalents, end of year	$ 1,011,145

Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (973,544)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Prepaid items	48,497
Due from/to other funds	669,979
Accounts payable	110,960
Claims payable	(143,110)
Net cash used by operating activities	$ (287,218)

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Employees' Retirement	Police and Firemen's Retirement
Assets		
Cash and cash equivalents	$ 275,028	$ 240,708
Investments	3,368,996	8,282,031
Total assets	3,644,024	8,522,739
Liabilities		
Due to the primary government	577,283	776,919
Net Position		
Net position restricted for pensions	$ 3,066,741	$ 7,745,820

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Fiscal Year Ended June 30, 2014

	Employees' Retirement	Police and Firemen's Retirement
Additions		
Contributions:		
Employer contributions	$ 138,459	$ 359,506
Impounding lot	-	30,383
Miscellaneous	67	-
Total revenue	138,526	389,889
Investment return:		
Interest and dividends	139,317	319,258
Net appreciation in fair value of investments	335,411	813,845
Total net investment return	474,728	1,133,103
Total additions	613,254	1,522,992
Deductions		
Benefit payments	623,756	1,446,162
Administration	12,221	28,113
Total deductions	635,977	1,474,275
Change in net position	(22,723)	48,717
Net position, beginning of year	3,089,464	7,697,103
Net position, end of year	$ 3,066,741	$ 7,745,820

See accompanying notes to the basic 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 is 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 Unit Included Within the Reporting Entity. 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 (l) 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.

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, Devon 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, 2013, 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.

Note 1 - Summary of Significant Accounting Policies - continued

Basis of Presentation Government-Wide Financial Statements
The government-wide financial statements (i.e., the statement of net position 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 other 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 the related 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.

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 sixty days of the end of the current fiscal period. Significant revenues susceptible to accrual are payroll license fees, insurance fees and grant revenues. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally 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.

Note 1 - Summary of Significant Accounting Policies - continued

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 Neighborhood Stabilization Program Fund accounts for U.S. Department of Housing and Urban Development funds, passed through from the State, to develop low income rental units and owner occupied homes purchased out of foreclosure.
- The Capital Improvement Fund accounts for funds provided to the City by the Federal and State governments and public financing for the acquisition and/or construction of capital improvements and equipment.

The City 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. 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.

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 Retirement Fund. These funds are for the accumulation of resources for pension benefit payments to qualified retired employees (see Note 9).

Assets, Deferred Inflows, Deferred Outflows, Liabilities and Net Position/Fund Balance

Cash and Cash Equivalents
Cash and cash equivalents include 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

Cash with fiscal agent represents the balance available to be drawn from the inception of a capital lease for public improvements. Cash held in escrow represents the portion of the capital lease proceeds used to fund a debt service reserve account to satisfy debt service requirements in the final year of maturity and amounts for Devou Park maintenance.

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 comprised of housing development and small business loans financed by a combination of resourced appropriated by the City and allocations from the U.S. Department of Housing and Urban Development (HUD). As of June 30, 2014, the City had housing development and small business loans outstanding of $16,296,455 and $1,122,401, respectively. The City has recorded an allowance of $13,860,956 on housing development and $606,881 on small business loans. Although some loans are repaid, repayment may be limited to net proceeds after payment of the first mortgage and seller closing costs and; therefore most repayments are minimal. Additionally, many loans have favorable repayments terms to encourage home ownership that include deferral and/or forgiveness if homeowners remain in the home for a specified period of time.

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, 2014, 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 position**.**

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. 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 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 statement of net position. The range of lives used for depreciation purposes for each capital asset class is as follows:

	Governmental Activities
Description	**Estimated Lives**
Buildings	30 years
Buildings and improvements	10 – 20 years
Public domain infrastructure	25 – 35 years
Vehicles	5 – 10 years
Office equipment	3 – 10 years

Note 1 - Summary of Significant Accounting Policies - continued

Deferred Outflows of Resources
In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City's interest rate swap was deemed to be an effective hedge and was offset by a deferred outflow of resources in accordance with GASB No. 53.

Compensated Absences
The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation. 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. Accumulated sick leave lapses when employees leave employment of the City and, upon separation from service, no monetary obligation exists.

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 position. 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 a liability in the fund financial statements. The debt proceeds are reported as an other financing source 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 Revenue
In the statements of financial position, 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.

Deferred Inflows of Resources
In addition to liabilities, the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include unavailable revenue, which represent receivables that will not be collected within the available period (sixty days after fiscal year-end).

Note 1 - Summary of Significant Accounting Policies - continued

Fund Equity
Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets is 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:

- Nonspendable- 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 position), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, when both restricted and unrestricted resources are available for use, it is the City's police to use externally restricted resources first, then unrestricted resources - committed, assigned and unassigned - in order as needed.

Revenues, Expenditures and Expenses
Operating Revenues and Expenses
Operating revenues and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund’s principal ongoing operations. Operating revenues and expenses for the proprietary funds are those that result from internal insurance premiums.

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 the reported amounts of assets, liabilities, and 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.

Special Item
During the fiscal year, the City uncovered embezzlement that had been perpetrated by the former Finance Director. The City reported the amount embezzled during the fiscal year as a special item. See Note 11 for additional information.

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 one supplementary appropriation ordinance. Appropriations lapse at year end unless a new budget has not been adopted.

Excess of Expenditures over Appropriations

The following funds had expenditures in excess of legally adopted appropriations for the year ended June 30, 2014:

	Budget	Actual
Federal & State Grants Fund	$1,811,620	$1,917,047
Renaissance Grant Fund	502,748	554,592
Police Forfeiture Justice Fund	239,901	308,817
Police & Fire Supplemental Pay Fund	901,339	905,763
Devou Park Master Plan Fund	245,201	272,656

Note 3 - Deposits

Cash and Cash Equivalents

Custodial Credit Risk. For deposits, this is the risk that in the event of a bank failure, the City's deposits will not be returned. 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, 2014, $472,798 of the City's deposits are insured by the FDIC, and $11,018,019 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, 2014, the City did not have any deposits in excess of insured and/or collateralized amounts.

During fiscal year 2013, the City entered into a capital lease agreement for $16.04 million to fund specific public improvements. As of June 30, 2014, the City had $2,138,059 available to be drawn. Additionally, the City had $642,746 in escrow balances for debt reserves and park maintenance.

As of December 31, 2013, Devou Properties, Inc. (a component unit of the City) had $1,653,105 in cash in excess of insured limits.

Investments

Custodial Credit Risk. For investments, this 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 investments that are in the possession of an outside party. Investments are made by the City as an agent for the City Employee's Retirement Fund and the Police and Firemen's Retirement Fund. The City maintains investment accounts with brokerage institutions which hold the investments registered in the City's name. As of June 30, 2014, 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. See Note 9 for additional information.

Note 4 - Capital Assets and Depreciation

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Governmental Activities				
Capital assets not being depreciated				
Land	$ 14,339,320	$ 223,778	$ 138,786	$ 14,424,312
Land improvements	1,717,703	37,594	-	1,755,297
Construction in progress	34,828	668,209	34,828	668,209
Total capital assets not being depreciated	16,091,851	929,581	173,614	16,847,818
Depreciable capital assets				
Buildings	24,903,661	2,014,496	834,692	26,083,465
Building improvements	12,052,787	3,043,921	-	15,096,708
Infrastructure	113,460,486	5,706,640	-	119,167,126
Machinery and equipment	4,700,984	346,643	627,420	4,420,207
Vehicles	12,405,596	397,785	722,830	12,080,551
Total depreciable capital assets	167,523,514	11,509,485	2,184,942	176,848,057
Less accumulated depreciation				
Buildings	10,604,194	603,361	744,828	10,462,727
Building improvements	9,127,980	455,615	-	9,583,595
Infrastructure	95,842,522	4,482,528	-	100,325,050
Machinery and equipment	3,179,059	510,036	627,420	3,061,675
Vehicles	10,372,127	680,992	722,830	10,330,289
Total accumulated depreciation	129,125,882	6,732,532	2,095,078	133,763,336
Total depreciable capital assets, net	38,397,632	4,776,953	89,864	43,084,721
Governmental Activities capital assets, net	$ 54,489,483	$ 5,706,534	$ 263,478	$ 59,932,539
Component Unit				
Devou Properties, Inc.				
Depreciable capital assets				
Property and equipment	$ 90,124	$ 61,277	$ -	$ 151,401
Less accumulated depreciation	48,224	35,217	-	83,441
Component Unit property and equipment, net	$ 41,900	$ 26,060	$ -	$ 67,960

Note 4 - Capital Assets and Depreciation - continued

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	$ 501,666
Police	555,431
Fire	281,164
Public improvements	5,157,133
Community development	237,138
Total Governmental Activities depreciation expense	$ 6,732,532

Note 5 - Interfund Activity

Interfund transactions at June 30, 2014 consisted of the following due to/from other funds and transfers in/out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	$ 926,349	$ 1,224,684	$ 123,099	$ 2,238,043
Neighborhood Stabilization Program	226,517	-	-	-
Capital Improvement Fund	59,624	46,750	-	-
Nonmajor Governmental Funds	430,363	1,208,673	1,264,630	123,099
Internal Service Funds	837,254	-	973,413	-
	$ 2,480,107	$ 2,480,107	$ 2,361,142	$ 2,361,142

Due To/From Other Funds

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, and then transferred to various other funds in order to fund immediate expenditures.

Due From Fiduciary Activities/Due To Primary Government

As of June 30, 2014, the General Fund provided short-term loans of $577,283 to the Employees' Retirement Fund and $776,919 to the Police & Firemen's Retirement Fund.

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 payment when they become due. Much of the City's revenue is received in the General Fund and transferred to various other funds in order to fund immediate expenditures.

Note 6 - Short-Term Debt

On July 1, 2013, the City issued a Tax and Revenue Anticipation Note (TRAN) 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 rate of 1.75% and matured on June 30, 2014, at which time it was repaid out of the General Fund.

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 –Inception of capital lease" was 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, 2014:

		Capital Assets
Buildings	$	9,409,484
Building improvements		4,824,846
Equipment		894,145
Land		7,215,848
Infrastructure		6,029,482
Vehicles		2,555,052
Total cost		30,928,857
Accumulated depreciation		(5,430,095)
Net Book Value	$	25,498,762

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, 2014:

Fiscal Year Ending June 30,		
2015	$	2,606,356
2016		2,507,528
2017		2,524,971
2018		2,263,647
2019		2,214,534
2020-2024		10,114,468
2025-2029		5,513,643
2030-2034		4,526,058
2035-2039		3,646,522
Total minimum lease payments		35,917,727
Less amounts representing interest		7,943,742
Present value of minimum lease payments	$	27,973,985

Notes and Bonds

The following schedule summarizes outstanding long-term mortgage bonds and notes payable at June 30, 2014:

	Purpose	Interest Rate	Mature Date June 30,	Issued	Outstanding
Mortgage Bonds					
2003 Series	Refunding	2.00-4.50%	2018	$ 4,996,000	$ 1,679,000
2004 Series	Pension funding	Variable	2030	14,410,000	11,090,000
KY Infrastructure Auth.	Rainwater project	2.00%	2030	1,197,390	488,918
KY Bond Corp. 2010 Series A	Refinancing	2.00%	2030	315,000	37,917
Recovery Zone Economic Dev	River Center	4.90-7.00%	2030	2,650,000	2,530,000

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 0.30% at June 30, 2014.

The bonds may be called prior to maturity at rates and redemption premiums specified in each issue.

Note 7 - General Long-Term Debt – continued

Assuming no issues are called prior to maturity, the minimum obligations of the City at June 30, 2014 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	$ 1,048,254	$ 720,763	$ 1,769,017
2016	1,051,869	675,059	1,726,928
2017	1,096,411	627,581	1,723,992
2018	1,143,964	577,641	1,721,605
2019	728,529	535,585	1,264,114
2020-2024	4,166,517	2,138,675	6,305,192
2025-2029	5,217,438	1,033,625	6,251,063
2030	1,372,853	61,155	1,434,008
	$ 15,825,835	$ 6,370,084	$ 22,195,919

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 City's variable interest rate on the bonds to a synthetic fixed rate of 4.56 percent. The interest rate swap is considered a hedging derivative instrument.

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

Fair Value. The swap had a fair value of $243,094 as of June 30, 2014, representing a decrease in fair value of $468,711 from June 30, 2013. The fair value of the swap was offset by a deferred outflow of resources. 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, 2014, 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, 2014.

Swap Payments and Associated Debt. For the year ended June 30, 2014, the City did not receive any payments from the agreement. Using rates as of June 30, 2014, 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.

Note 7 - General Long-Term Debt – continued

Fiscal Year Ending June 30,	Principal	Interest	Swap, Net	Total
2015	$ 470,000	$ 9,877	$ 245,946	$ 725,823
2016	490,000	468,950	-	958,950
2017	515,000	446,237	-	961,237
2018	540,000	422,394	-	962,394
2019	570,000	397,308	-	967,308
2020-2024	3,305,000	1,562,677	-	4,867,677
2025-2029	4,225,000	716,533	-	4,941,533
2030	975,000	22,035	-	997,035
	$ 11,090,000	$ 4,046,011	$ 245,946	$ 15,381,957

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, 2014, there was $62.7 million outstanding in Industrial Revenue Bonds.

During the year ended June 30, 2014, the following changes occurred in long-term liabilities:

Debt Issue	***Restated* Beginning Balance**	**Issued**	**Redeemed**	**Ending Balance**	**Amounts Due Within One Year**
Mortgage bonds and notes:					
2003 Refunding	$ 2,062,000	$ -	$ (383,000)	$ 1,679,000	$ 394,000
2004 Series	11,535,000	-	(445,000)	11,090,000	470,000
KIA Rainwater Harvest	513,704	-	(24,786)	488,918	26,337
KY Bond Corp 2010 Series A	102,917	-	(65,000)	37,917	37,917
Recovery Zone Bonds	2,650,000	-	(120,000)	2,530,000	120,000
Total mortgage bonds and notes	16,863,621	-	(1,037,786)	15,825,835	1,048,254
Capital lease obligations:					
Infrastructure/equipment	29,707,976	-	(1,733,991)	27,973,985	1,797,882
Net pension liability:					
Employees' Retirement	1,772,079	1,068,709	(1,221,779)	1,619,009	-
Police & Firemen's Retirement	3,330,132	1,927,437	(2,620,074)	2,637,495	-
Total net pension liability	5,102,211	2,996,146	(3,841,853)	4,256,504	
Compensated absences	1,244,494	1,380,801	(1,244,494)	1,380,801	1,380,801
Total Long-Term Liabilities	$ 52,918,302	$ 4,376,947	$ (7,858,124)	$ 49,437,125	$ 4,226,937

Note 7 - General Long-Term Debt – continued

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

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 $714,000 at June 30, 2014. Changes in the Liability Self Insurance Fund's claims liability amount during the fiscal year ended June 30, 2014 were as follows:

	2014	2013
Claims liability at July 1	$ 714,000	$ 792,500
Change in claims and estimates	652,118	514,364
Claims payments	(652,118)	(592,864)
Claims liability at June 30	$ 714,000	$ 714,000

Additionally, the City accrued a liability of approximately $193,000 during fiscal year 2013 in the General Fund for a settlement of pension payments that was paid off during 2014.

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 reported at June 30, 2014 is $945,614. Changes in the Medical Self Insurance Fund's claims liability amount during the fiscal year ended June 30, 2014 were as follows:

	2014	2013
Claims liability at July 1	$ 1,088,724	$ 993,291
Change in claims and estimates	4,937,955	3,963,730
Claims payments	(5,081,065)	(3,868,297)
Claims liability at June 30	$ 945,614	$ 1,088,724

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 Plans

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

Summary of Significant Accounting Policies

Basis of Accounting. The plans' 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 all established market are reported at estimated fair value.

A. Employees' Retirement Plan

Plan Description. The Employees' Retirement Plan is a single-employer defined benefit pension plan that covers substantially all non-public safety employees hired prior to April 1, 1977. The plan is administered by the Board of Trustees, which consists of five members: the Mayor, the City Manager, the Finance Director, the Human Resources Director, and a former employee who is a member of the Fund appointed by the Mayor.

Benefits Provided. The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Plan members who retire with 10 years of service at age 50 are eligible to receive a monthly benefit of 2.5% of their average salary for each of the first 20 years of service, 2.0% for the next 5 years of service, and 1.0% for each additional year, with a maximum benefit of 65% of average salary. Plan members who were terminated before age 50, but had 10 years of service are eligible for an accrued benefit as of termination of employment payable upon attainment of age 50. Plan members terminating with less than 10 years of service are entitled to a refund of their contributions without interest.

Plan members eligible for an occupational disability retirement shall receive an annuity equal to 60% of an average of their three highest salary years. Plan members eligible for a non-occupational disability retirement are entitled to an annuity equal to 2.5% of their average salary, subject to a minimum payment of 25% of such average salary, and a maximum payment of 65% of their average salary, if they have at least 10 years of service.

Non-occupational death benefits are equal to the total contributions made to the Plan, if the employee had less than 10 years of service, or an annuity equal to 1.5% of their average salary for each year of service, adjusted by 0.50 for the first minor child and by 0.25 for each additional child, with a maximum family benefit of 50% of the average salary if the employee had at least 10 years of service. Occupational death benefits are equity to 50% of average salary, increasing by 10% for each minor child, with a maximum equal to 70% of average salary.

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. The Board of Trustees approved a 1.5% COLA as of January 1, 2014.

Note 9 - Employee Retirement Plans – continued

A. Employees' Retirement Plan - continued

Contributions. As of June 30, 2014, there are 43 retirees and beneficiaries currently receiving benefits. The City is required to contribute at an actuarially determined rate. Contribution requirements of the City are established and may be amended by City ordinance. Administrative costs are financed through investment earnings. The plan is closed to new entrants and doesn't have any active plan members.

Investment Policy. The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	20%	4.0%
Equity funds	60%	8.0%
Real assets	10%	6.5%
Low volatility	10%	5.0%
Total	100%	

Concentrations. The Employees' Retirement Plan investments concentration as of June 30, 2014:

Investment	Concentration
Cash and money markets	14%
Bond mutual funds	19%
Equity mutual funds	56%
Other assets	11%
	100%

Rate of Return. For the year ended June 30, 2014, the annual money-weighted rate of return on the plan investments, net of pension plan investment expense was 16.20%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 9 - Employee Retirement Plans – continued

A. Employees' Retirement Plan - continued

Net Pension Liability. The Employees' Retirement net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The components of the net pension liability of the City at June 30, 2014, were as follows:

Total pension liability	$ 4,685,750
Employee's Retirement Plan fiduciary net position	(3,066,741)
City's net pension liability	$ 1,619,009
Employees' Retirement Plan net position as a percentage of total pension liability	65.45%

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.5%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Mortality Table projected to 2021 based on Scale AA.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2014.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 9 - Employee Retirement Plans – continued

A. Employees' Retirement Plan - continued

Changes in Employees' Net Pension Liability. Changes in the Employees' Retirement net pension liability for the year ended June 30, 2014 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, June 30, 2013	$ 4,861,543	$ 3,089,464	$ 1,772,079
Changes for the year:			
Interest	342,966	-	342,966
Benefit changes	64,980	-	64,980
Difference between expected and actual experience	(20,562)	-	(20,562)
Changes of assumptions	24,786	-	24,786
Benefit payments	(587,963)	-	(587,963)
Contributions - employer	-	138,459	(138,459)
Net investment income	-	474,728	(474,728)
Benefit payments	-	(623,756)	623,756
Administrative expense	-	(12,221)	12,221
Other	-	67	(67)
Net changes	(175,793)	(22,723)	(153,070)
Balance, June 30, 2014	$ 4,685,750	$ 3,066,741	$ 1,619,009

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 7.5 %, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	Discount Rate	Net Pension Liability
1% decrease	6.5%	$ 1,932,982
Current discount rate	7.5%	$ 1,619,009
1% increase	8.5%	$ 1,340,552

Pension Revenue/Expense. For the year ended June 30, 2014, the City recognized pension revenue of $153,070.

B. Police and Firemen's Retirement Plan

Plan Description. The Police and Firemen's Retirement 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 is administered by the Board of Trustees, which consists of five members: the Mayor, the City Manager, the Finance Director, and two retired members of the police and fire department.

Note 9 - Employee Retirement Plans – continued

B. Police and Firemen's Retirement Plan - continued

Benefits Provided. The plan provides retirement, disability and death benefits to plan members and their beneficiaries as provided under Kentucky Revised Statutes (KRS) 95.852 to 95.991. Plan members who retire with 20 years of service at age 50 are eligible to receive a monthly benefit of 2.5% of their average salary for each of the first 30 years of service, with a maximum benefit of 75% of average salary and a minimum monthly benefit of $512.50. Plan members who were terminated before age 50, but had 20 years of service are eligible for an accrued benefit as of termination of employment payable upon attainment of age 50. Plan members terminating with less than 20 years of service are entitled to a refund of their contributions without interest.

Plan members eligible for an occupational disability retirement shall receive an annuity equal to 70% of the last salary, with a maximum benefit, including basic Workers' Compensation, is 100% of the last salary, and a minimum of the greater of $512.50 monthly benefit or 2.5% of average salary of each year of service. Plan members eligible for a non-occupational disability retirement are entitled to an annuity equal to 2.5% of their average salary, subject to a minimum monthly benefit of $512.50, and a maximum payment of 50% of their average salary, if they have at least 10 years of service.

Beneficiaries are entitled to non-occupational death benefits for employees who had 3 years of service and died from causes other than in the performance of duty. Benefits include 1.5% of average salary for each year of service plus total cost-of-living (COL) increases retired members may have received in their annuity for beneficiaries who are at least age 45. If the beneficiary becomes totally disabled before age 45 or has a minor child or children, payments will begin immediately. If there are minor children under the age of 18, the annuity percentage credit shall be increased by a factor of 0.50 on account of the first child and by a factor of 0.25 on account of each additional child, subject to a maximum combined payment of 75% of average salary. If the pensioner is not survived by a widow and there are minor children a benefit of 50% of average salary plus total COL increases for the first minor child, plus 15% additional for the second minor child, plus 10% additional if there are 3 or more minor children, to a maximum payment of 75% of average salary (excluding COL). These benefits will be payable until age 18 or, in the case of a full-time student, until age 23. In the situation of an occupational death, monthly benefits are equal to 50% of the last rate of salary plus total COL increases, payable to the survivor until they die or remarry. If there are minor children under age 18, an additional 25% shall be paid until the last child reaches age 18, to a combined maximum benefit of 75% of the final rate of salary (excluding COL). If the pensioner is not survived by a widow and there are minor children a benefit of 50% of average salary plus total COL increases for the first minor child, plus 15% additional for the second minor child, plus 10% additional if there are 3 or more minor children, to a maximum payment of 75% of average salary (excluding COL). These benefits will be payable until age 18 or, in the case of a full-time student, until age 23. If neither a widow nor minor children survive the member, each dependent parent shall be entitled to an annuity equal to 25% of the member's last rate of salary.

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. The Board of Trustees approved a 2.0% COLA as of July 1, 2013.

Contributions. As of June 30, 2014, there are 72 retirees and beneficiaries currently receiving benefits. 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. The plan is closed to new entrants and doesn't have any active plan members.

Investment Policy. The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

Note 9 - Employee Retirement Plans – continued

B. Police and Firemen's Retirement Plan - continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	20%	4.0%
Equity funds	60%	8.0%
Real assets	10%	6.5%
Low volatility	10%	5.0%
Total	100%	

Concentrations. The Police and Firemen's Retirement Plan investments concentration as of June 30, 2014:

Investment	Concentration
Cash and money markets	16%
Bond mutual funds	19%
Equity mutual funds	55%
Other assets	10%
	100%

Rate of Return. For the year ended June 30, 2014, the annual money-weighted rate of return on the plan investments, net of pension plan investment expense was 16.48%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 9 - Employee Retirement Plans – continued

B. Police and Firemen's Retirement Plan - continued

Net Pension Liability. The Police and Firemen's Retirement net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The components of the net pension liability of the City at June 30, 2014, were as follows:

Total pension liability	$ 10,383,315
Police and Firemen's Retirement Plan fiduciary net position	(7,745,820)
City's net pension liability	$ 2,637,495
Police and Firemen's Retirement Plan net position as a percentage of total pension liability	74.60%

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.5%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Table with Blue Collar and Multi-Employer adjustment projected to 2020 for health retirees, the RP-2000 Mortality for Disabled Annuitants projected to 2020 for disabled retirees and surviving spouses.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2014.

Discount rate. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 9 - Employee Retirement Plans – continued

B. Police and Firemen's Retirement Plan - continued

Changes in Police and Firemen's Net Pension Liability. Changes in the Police and Firemen's net pension liability for the year ended June 30, 2014 were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, June 30, 2013	$ 11,027,235	$ 7,697,103	$ 3,330,132
Changes for the year:			
Interest	774,059	-	774,059
Benefit changes	38,609	-	38,609
Difference between expected and actual experience	(17,688)	-	(17,688)
Benefit payments	(1,438,900)	-	(1,438,900)
Contributions - employer	-	359,506	(359,506)
Net investment income	-	1,133,103	(1,133,103)
Benefit payments	-	(1,446,162)	1,446,162
Administrative expense	-	(28,113)	28,113
Other	-	30,383	(30,383)
Net changes	(643,920)	48,717	(692,637)
Balance, June 30, 2014	$ 10,383,315	$ 7,745,820	$ 2,637,495

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 7.5 %, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	Discount Rate	Net Pension Liability
1% decrease	6.5%	$ 3,276,884
Current discount rate	7.5%	$ 2,637,495
1% increase	8.5%	$ 2,066,909

Pension Revenue/Expense. For the year ended June 30, 2014, the City recognized pension revenue of $692,637.

C. 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.

Note 9 - Employee Retirement Plans - continued

C. County Employees Retirement System (CERS) - continued

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 he extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the state legislature.

Non-Hazardous Contributions - For the year ended June 30, 2014, all plan members were required to contribute 5% of their annual creditable compensation. Any plan members that entered the retirement plan on or after September 1, 2008 are required to contribute an additional 1% of their annual creditable compensation for health insurance. 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 preceding 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, 2014, participating employers contributed 18.89% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

Hazardous Contributions - For the year ended June 30, 2014, plan members were required to contribute 8% of their annual creditable compensation. Any plan members that entered the retirement plan on or after September 1, 2008 are required to contribute an additional 1% of their annual creditable compensation for health insurance. 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 July l 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, 2014, participating employers contributed 35.70% of each employee's creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

The City’s contributions to CERS for the fiscal years ended June 30, 2014, 2013, and 2012 were $6,292,374, $6,561,961, and $6,423,348, respectively, which equaled the required contributions each fiscal year.

Medical Insurance Plan - The CERS provides post-retirement healthcare benefits to eligible members and dependents, under a cost-sharing multiple employer defined benefit plan. Medical benefits are offed to members who have retired from service or disability. The post-retirement healthcare is financed through member contributions and state appropriations.

Note 10 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major funds and all other governmental funds are presented below:

Fund Balances	General	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Prepaid expenses	$ 25,515	$ -	$ -	$ 25,515
Restricted for				
Capital projects	-	4,705,268	-	4,705,268
Debt service	-	-	401,000	401,000
HUD programs	-	-	1,186,807	1,186,807
Devou Park maintenance	-	-	46,989	46,989
Other grant programs	-	-	16,139	16,139
Total Restricted	-	4,705,268	1,650,935	6,356,203
Committed to				
Police	-	-	153,695	153,695
Debt service	-	-	274,170	274,170
Total Committed	-	-	427,865	427,865
Unassigned	2,178,928	-	(75,586)	2,103,342
Total Fund Balance	$ 2,204,443	$ 4,705,268	$ 2,003,214	$ 8,912,925

At June 30, 2014, the following funds had a deficit fund balance:

One Stop Shop Fund	$ 10,238
Devou Park Maintenance Fund	$ 65,348

The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accrual occur.

Note 11 – Contingencies

The City is a defendant in a number of lawsuits pertaining to matters that are incidental to performing routine governmental and other funds. Management anticipates that any potential claims against the City would be covered by the self-insurance reserve and would not materially affect the City's financial position.

Amounts grantor agencies pay to the City are subject to audit and adjustments by the grantor, principally the federal government. The grantor may require refunding by the City for any disallowed costs. Management cannot determine amounts grantors may disallow in future periods. However, based on prior experience, management believes any refunds would be immaterial to its financial statement as of June 30, 2014.

Note 12 - Subsequent Events

On July 1, 2014, the City issued $3,500,000 in tax and revenue anticipation notes, bearing interest at 2.75% and maturing on June 30, 2015.

On August 6, 2014, the City issued $18,635,000 in Series 2014 general obligation bonds to finance the acquisition, construction, installation and equipping of multiple public projects and to currently refund a 2008 capital lease obligation with the Kentucky League of Cities Funding Trust.

On October 21, 2014, the City issued $10,960,000 in Series 2014B taxable general obligation refunding bonds to refund the Series 2004 taxable variable rate general obligation funding bonds.

Note 13 - Change in Accounting Principles and Restatement

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets or liabilities as outflows of resources (expenses/expenditures) or inflows of resources (revenues). This financial report has been updated in accordance with GASB Statement No. 65.

The City adopted GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and 62*. This Statement resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. GASB Statement No. 66 did not have an effect on the financial statements of the City.

The City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans–an amendment of GASB Statement No. 25*. This Statement establishes standards of financial reporting and specifies the required approach to measuring pension liability of employers for benefits provided through the pension plan. The Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This financial report has been updated in accordance with GASB Statement No. 67.

Related to its implementation of GASB Statement No. 67, the City elected to early implement the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions–an amendment of GASB Statement No. 27,* for the Employees' and Police and Firemen's Pension Plans. The information was not available for early implementation on the CERS. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope.

Note 13 - Change in Accounting Principles and Restatement - continued

The City adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement provides consistent reporting and disclosure requirements by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. Statement No. 70 did not have an effect on the financial statements of the City.

The implementation of GASB Statement Nos. 65 and 68 had the following effect:

	Governmental Activities
Net position, June 30, 2013	$ 31,350,567
Recognition of unamortized bond issue costs as outflows	(226,377)
Recognition of net pension liabilities	(6,282,326)
Restated net position, June 30, 2013	$ 24,841,864

Additionally, the City's governmental fund balances and medical self-insurance fund net position as of June 30, 2013 have been adjusted to correct prior years' interfund transactions. These adjustments had the following effect:

	General Fund	Nonmajor Governmental Funds
Fund balance, June 30, 2013	$ 779,868	$ 2,013,303
Interfund transaction corrections	368,567	401,000
Restated fund balance, June 30, 2013	$ 1,148,435	$ 2,414,303

	Internal Service Funds
Net position, June 30, 2013	$ 835,836
Interfund transaction corrections	(769,567)
Restated net position, June 30, 2013	$ 66,269

Required Supplementary Information

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual -
General Fund
Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes:				
Real property	$ 6,489,664	$ 6,716,664	$ 6,488,714	$ (227,950)
Franchise	1,983,543	2,028,888	2,131,042	102,154
Insurance premium	4,910,692	5,759,752	5,672,059	(87,693)
Licenses and permits:				
Payroll license fees	22,532,651	22,287,904	22,222,546	(65,358)
Net profits license fees	2,881,505	2,709,557	2,829,873	120,316
Liquor and beer licenses	120,275	120,275	147,668	27,393
Other licenses and permits	118,090	148,441	153,243	4,802
Intergovernmental	780,369	1,057,729	1,179,402	121,673
Fines and forfeitures	418,514	368,083	414,625	46,542
Charges for services:				
Waste fees	2,457,984	2,484,044	2,375,586	(108,458)
Parking	1,465,100	1,554,553	1,554,915	362
Squad runs	1,332,835	1,332,835	1,391,914	59,079
Rental property	350,602	449,369	476,388	27,019
Other	21,080	59,113	138,034	78,921
Interest	5,000	5,000	3,181	(1,819)
Miscellaneous	308,098	437,028	564,563	127,535
Total revenues	46,176,002	47,519,235	47,743,753	224,518
Expenditures:				
Current:				
General government:				
Administration department:				
Payroll	711,855	839,968	966,299	(126,331)
Contractual services	407,717	634,217	651,841	(17,624)
Materials and supplies	19,500	41,439	37,373	4,066
Miscellaneous	24,000	15,103	17,821	(2,718)
Total administrative	$ 1,163,072	$ 1,530,727	$ 1,673,334	$ (142,607)

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual -
General Fund - *continued*
Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures - continued				
Current - *continued*:				
General government - *continued*:				
Legal department:				
Payroll	$ 485,646	$ 467,220	$ 436,714	$ 30,506
Contractual services	38,150	52,371	42,908	9,463
Materials and supplies	2,000	4,000	3,381	619
Miscellaneous	8,600	8,789	6,203	2,586
Total legal	534,396	532,380	489,206	43,174
Finance department:				
Payroll	943,253	1,001,327	945,181	56,146
Contractual services	348,625	480,305	500,401	(20,096)
Materials and supplies	8,850	17,600	16,061	1,539
Miscellaneous	4,900	5,400	5,185	215
Total finance	1,305,628	1,504,632	1,466,828	37,804
Total general government	3,003,096	3,567,739	3,629,368	(61,629)
Police:				
Payroll	11,507,374	11,902,749	12,344,586	(441,837)
Contractual services	417,975	414,109	318,015	96,094
Materials and supplies	386,250	428,561	493,530	(64,969)
Miscellaneous	15,000	13,000	11,974	1,026
Total police	12,326,599	12,758,419	13,168,105	(409,686)
Fire:				
Payroll	11,941,163	11,828,813	11,653,543	175,270
Contractual services	269,840	332,398	319,256	13,142
Materials and supplies	292,500	339,853	291,283	48,570
Miscellaneous	-	3,600	3,761	(161)
Total fire	$12,503,503	$12,504,664	$12,267,843	$ 236,821

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual -
General Fund - *continued*
Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures - continued				
Current - *continued* :				
Public improvement:				
Payroll	$ 4,115,675	$ 4,267,513	$ 4,182,613	$ 84,900
Contractual services	3,382,272	3,611,717	3,586,200	25,517
Materials and supplies	723,467	1,119,759	1,021,638	98,121
Miscellaneous	12,810	19,633	1,130	18,503
Total public improvement	8,234,224	9,018,622	8,791,581	227,041
Community development:				
Economic development:				
Payroll	1,233,796	1,568,649	1,466,637	102,012
Contractual services	234,755	410,524	425,896	(15,372)
Materials and supplies	10,600	47,766	55,072	(7,306)
Miscellaneous	501,000	507,036	506,862	174
Total economic development	1,980,151	2,533,975	2,454,467	79,508
Total community development	1,980,151	2,533,975	2,454,467	79,508
Parking garages:				
Contractual services	799,590	775,711	731,835	43,876
Total parking garages	799,590	775,711	731,835	43,876
Debt service:				
Principal	3,043,851	1,751,359	2,326,777	(575,418)
Interest	2,158,384	1,808,087	1,219,509	588,578
Total debt service	5,202,235	3,559,446	3,546,286	13,160
Total expenditures	$44,049,398	$44,718,576	$44,589,485	$ 129,091

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual -
General Fund - *concluded*
Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures - concluded				
Excess (deficiency) of revenues over (under) expenditures	$ 2,126,604	$ 2,800,659	$ 3,154,268	$ 353,609
Other Financing Sources (Uses)				
Transfers in	323,396	-	123,099	123,099
Proceeds on sale of assets	-	-	33,684	33,684
Transfers out	(2,700,000)	(2,689,432)	(2,238,043)	451,389
Total other financing sources (uses)	(2,376,604)	(2,689,432)	(2,081,260)	608,172
Special item	-	(17,000)	(17,000)	-
Net change in fund balance	(250,000)	94,227	1,056,008	$ 961,781
Fund balance, beginning of year, *restated*	1,148,435	1,148,435	1,148,435	
Fund balance, end of year	$ 898,435	$ 1,242,662	$ 2,204,443	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual -
Neighborhood Stabilization Program Fund
Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	$ 300,000	$ 300,000	$ 196,123	$ (103,877)
Miscellaneous	-	5,576	7,009	1,433
Total revenues	300,000	305,576	203,132	(102,444)
Expenditures:				
Current:				
Community development	-	20,424	20,398	26
Capital outlay	300,000	285,152	182,734	102,418
Total expenditures	300,000	305,576	203,132	102,444
Net change in fund balance	-	-	-	$ -
Fund balance, beginning of year	-	-	-	
Fund balance, end of year	$ -	$ -	$ -	

CITY OF COVINGTON, KENTUCKY

Required Supplementary Information -
Employees' Retirement Plan
Fiscal Year 2014 [1]

	2014
Schedule of City Contributions	
Actuarially determined contribution	$ 138,459
Contributions in relation to the actuarially determined contribution	$ 138,459
Contribution deficiency (excess)	$ -
Covered-employee payroll	N/A[2]
Actual contributions as a percentage of covered-employee payroll	N/A[2]
Schedule of Changes in the Net Position Liability and Related Ratios	
Total pension liabilty	
Interest	$ 342,966
Benefit changes	64,980
Difference between expected and actual experience	(20,562)
Changes of assumptions	24,786
Benefit payments	(587,963)
Net change in total pension liabilty	(175,793)
Total pension liability - beginning	4,861,543
Total pension liability - ending	$ 4,685,750
Plan fiduciary net position	
Contributions-employer	$ 138,459
Other	67
Net investment income	474,728
Benefit payments	(623,756)
Administrative expense	(12,221)
Net change in plan fiduciary net position	(22,723)
Plan fiduciary net position - beginning	3,089,464
Plan fiduciary net position - ending	$ 3,066,741
Net pension liability	$ 1,619,009
Plan fiduciary net position as percentage of the total pension liability	65.45%
Covered-employee payroll	N/A[2]
Net pension liability as a percentage of covered-employee payroll	N/A[2]
Schedule of Investment Returns	
Annual money-weighted rate of return, net of investment expense	16.20%

(1) - Only fiscal year 2014 was available. The City will continue to present information for years available until a full 10-year trend is compiled.

(2) - No active employees participating in the plan.

CITY OF COVINGTON, KENTUCKY

Required Supplementary Information -
Police and Firemen's Retirement Plan
Fiscal Year 2014 [1]

	2014
Schedule of City Contributions	
Actuarially determined contribution	$ 283,601
Contributions in relation to the actuarially determined contribution	$ 384,806
Contribution deficiency (excess)	$ (101,205)
Covered-employee payroll	N/A[2]
Actual contributions as a percentage of covered-employee payroll	N/A[2]
Schedule of Changes in the Net Position Liability and Related Ratios	
Total pension liabilty	
Interest	$ 774,059
Benefit changes	38,609
Difference between expected and actual experience	(17,688)
Benefit payments	(1,438,900)
Net change in total pension liabilty	(643,920)
Total pension liability - beginning	11,027,235
Total pension liability - ending	$ 10,383,315
Plan fiduciary net position	
Contributions-employer	$ 359,506
Impounding lot	30,383
Net investment income	1,133,103
Benefit payments	(1,446,162)
Administrative expense	(28,113)
Net change in plan fiduciary net position	48,717
Plan fiduciary net position - beginning	7,697,103
Plan fiduciary net position - ending	$ 7,745,820
Net pension liability	$ 2,637,495
Plan fiduciary net position as percentage of the total pension liability	74.60%
Covered-employee payroll	N/A[2]
Net pension liability as a percentage of covered-employee payroll	N/A[2]
Schedule of Investment Returns	
Annual money-weighted rate of return, net of investment expense	16.48%

(1) - Only fiscal year 2014 was available. The City will continue to present information for years available until a full 10-year trend is compiled.

(2) - No active employees participating in the plan.

CITY OF COVINGTON, KENTUCKY
Notes to Required Supplementary Information
Year Ended June 30, 2014

Note 1. Valuation Date: Actuarially determined contribution rates are calculated as of July1st preceding the fiscal year end in which contributions are reported.

Note 2. Benefit Changes: The City granted an ad hoc COLA increase of 1.5%, effective as of January 1, 2014, for participants of the Employees' Retirement Plan. The City also granted an ad hoc COLA increases of 2.0%, effective July 1, 2013, and 1.5%, effective July 1, 2014, for participants of the Police and Firemen's Retirement Plan.

Note 3. Change in Assumptions: In 2014, amounts reported as change in assumptions under the Employees' Retirement Plan resulted primarily from updating the mortality table to the current table.

Note 4. Methods and Assumptions Used to Determine Contribution Rates:

	Employees' Retirement Plan	Police and Firemen's Retirement Plan
Actuarial cost method	Entry age	Entry age
Amortization method	20-year closed amortization	20-year closed amortization
Asset valuation method	Market Value	Market Value
Investment rate of return	7.5%, compounded annually net of investment expenses, including inflation	7.5%, compounded annually net of investment expenses, including inflation
Retirement age	Immediate	Immediate
Mortality	RP-2000 Mortality Table projected to 2021 using Scale AA	RP-2000 Combined Table with Blue Collar and Multi-Employer adjustment projected to 2020 for health retirees and RP-2000 Mortality for Disabled Annuitants projected to 2020 for disabled retirees and surviving spouses.

Supplement Section

Combining Statements And Individual Fund Schedules

CITY OF COVINGTON, KENTUCKY

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes. The following are descriptions of each Special Revenue Fund:

Nonmajor Special Revenue Funds:

The **Federal & State Grants Fund** accounts for the revenues and expenditures related to grants awarded by Federal and state agencies.

The **Community Development Block Grant Fund** accounts for entitlements to the City under the provisions of Title I of the Housing and Development Act of 1974. Resources include a combination of block and other entitlement grants. Resources may only be used for activities which are directed toward developing urban communities and economic opportunities for persons for 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 **Renaissance Grant Fund** accounts for revenues and expenditures related to renaissance grants received by the City.

The **One Stop Shop Fund** accounts for revenue and expenditures generated at the Kentucky Career Center, with rent collected committed to debt service for economic development.

The **Police Forfeiture Justice Fund** accounts for the resources provided for by police forfeitures.

The **HOME Consortium 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.

The **Housing Voucher Program 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.

CITY OF COVINGTON, KENTUCKY

Nonmajor Special Revenue Funds:

The **Police & Fire Supplemental Pay Fund** accounts for entitlements received under the State of Kentucky's Policemen and Firemen's Supplemental Pay Programs.

The **Devou Park Maintenance Fund** accounts for all transactions related to the maintenance of roadways and streets within Devou Park.

The **Devou Park Master Plan Fund** accounts for revenues and expenditures of funds allocated for use in Devou Park, from proceeds of the operation of the Drees Pavilion.

DEBT SERVICE FUND

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.

Nonmajor Debt Service Fund:

The **Pension Obligation 2004 Fund** accounts for the retirement of the Series 2004 Pension Obligation bonds to fund the Employees' Retirement Fund and the Police and Firemen's Retirement Fund.

INTERNAL SERVICE FUNDS

Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

Internal Service Funds:

The **Liability Self Insurance Fund** accounts for the City's self-insurance of liability claims.

The **Medical Self Insurance Fund** accounts for the City's health and dental insurance programs for City employees.

CITY OF COVINGTON, KENTUCKY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Nonmajor Special Revenue Funds											Nonmajor Debt Service	Total
	Federal & State Grants	Community Development Block Grant	HOME Program	Renaissance Grant	One Stop Shop	Police Forfeiture Justice	HOME Consortium	Housing Voucher Program	Police & Fire Supplemental Pay	Devou Park Maintenance	Devou Park Master Plan	Pension Obligation 2004	Nonmajor Governmental Funds
Assets													
Cash and cash equivalents	$ -	$ 135,404	$ 316,547	$ -	$ -	$ 157,495	$ -	$ 1,001,924	$ -	$ 58,753	$ -	$ 274,170	$ 1,944,293
Cash held in escrow	-	-	-	-	-	-	-	-	-	240,746	-	401,000	641,746
Receivables (net of allowance for doubtful accounts):													
Intergovernmental	11,380	96,001	10,000	554,592	-	-	5,000	-	36,370	-	-	-	713,343
Accounts	96,334	-	-	-	-	-	-	30,930	-	-	-	-	127,264
Due from other funds	-	65,308	46,750	-	-	-	262,190	-	-	-	56,115	-	430,363
Total assets	$ 107,714	$ 296,713	$ 373,297	$ 554,592	$ -	$ 157,495	$ 267,190	$ 1,032,854	$ 36,370	$ 299,499	$ 56,115	$ 675,170	$ 3,857,009
Liabilities:													
Accounts payable	$ 25,663	$ 86,863	$ 247	$ -	$ 7,953	$ 3,800	$ -	$ 14,459	$ -	$ 2,316	$ 9,126	$ -	$ 150,427
Due to other funds	81,047	-	282,324	539,457	2,285	-	267,190	-	36,370	-	-	-	1,208,673
Unearned revenue	-	-	-	-	-	-	-	132,164	-	362,531	-	-	494,695
Total liabilities	106,710	86,863	282,571	539,457	10,238	3,800	267,190	146,623	36,370	364,847	9,126	-	1,853,795
Fund balances:													
Restricted	1,004	209,850	90,726	15,135	-	-	-	886,231	-	-	46,989	401,000	1,650,935
Committed	-	-	-	-	-	153,695	-	-	-	-	-	274,170	427,865
Unassigned	-	-	-	-	(10,238)	-	-	-	-	(65,348)	-	-	(75,586)
Total fund balances	1,004	209,850	90,726	15,135	(10,238)	153,695	-	886,231	-	(65,348)	46,989	675,170	2,003,214
Total liabilities and fund balances	$ 107,714	$ 296,713	$ 373,297	$ 554,592	$ -	$ 157,495	$ 267,190	$ 1,032,854	$ 36,370	$ 299,499	$ 56,115	$ 675,170	$ 3,857,009

CITY OF COVINGTON, KENTUCKY
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
Fiscal Year Ended June 30, 2014

	Nonmajor Special Revenue Funds											Nonmajor Debt Service	Total
	Federal & State Grants	Community Development Block Grant	HOME Program	Renaissance Grant	One Stop Shop	Police Forfeiture Justice	HOME Consortium	Housing Voucher Program	Police & Fire Supplemental Pay	Devou Park Maintenance	Devou Park Master Plan	Pension Obligation 2004	Nonmajor Governmental Funds
Revenues:													
Intergovernmental	$ 1,751,982	$ 2,136,293	$ 314,435	$ 557,340	$ -	$ 163,074	$ 173,998	$ 5,764,213	$ 905,763	$ -	$ -	$ -	$ 11,767,098
Investment earnings	-	-	107	-	-	199	-	633	-	167	-	-	1,106
Miscellaneous	163,569	243,417	61,438	-	-	-	4,208	1,385	-	-	-	-	474,017
Total revenues	1,915,551	2,379,710	375,980	557,340	-	163,273	178,206	5,766,231	905,763	167	-	-	12,242,221
Expenditures:													
Current:													
General government	75,000	-	-	-	-	-	-	-	-	49,615	272,656	-	397,271
Police	40,549	-	-	-	-	308,817	-	-	428,194	-	-	-	777,560
Fire	-	-	-	-	-	-	-	-	477,569	-	-	-	477,569
Public improvements	24,998	-	-	-	-	-	-	-	-	-	-	-	24,998
Community development	640,637	1,088,884	425,269	98,081	10,238	-	178,206	5,939,012	-	-	-	-	8,380,327
Debt service:													
Principal	-	-	-	-	-	-	-	-	-	-	-	445,000	445,000
Interest	-	-	-	-	-	-	-	-	-	-	-	535,460	535,460
Capital outlay	1,135,863	1,129,666	-	456,511	-	-	-	8,716	-	25,900	-	-	2,756,656
Total expenditures	1,917,047	2,218,550	425,269	554,592	10,238	308,817	178,206	5,947,728	905,763	75,515	272,656	980,460	13,794,841
Excess (deficiency) of revenues over (under) expenditures	(1,496)	161,160	(49,289)	2,748	(10,238)	(145,544)	-	(181,497)	-	(75,348)	(272,656)	(980,460)	(1,552,620)
Other financing sources (uses):													
Transfers in	-	-	-	-	-	-	-	-	-	10,000	-	1,254,630	1,264,630
Transfers out	-	(123,099)	-	-	-	-	-	-	-	-	-	-	(123,099)
Total other financing sources (uses)	-	(123,099)	-	-	-	-	-	-	-	10,000	-	1,254,630	1,141,531
Net change in fund balances	(1,496)	38,061	(49,289)	2,748	(10,238)	(145,544)	-	(181,497)	-	(65,348)	(272,656)	274,170	(411,089)
Fund balance, beginning of year	2,500	171,789	140,015	12,387	-	299,239	-	1,067,728	-	-	319,645	401,000	2,414,303
Fund balance, end of year	$ 1,004	$ 209,850	$ 90,726	$ 15,135	$ (10,238)	$ 153,695	$ -	$ 886,231	$ -	$ (65,348)	$ 46,989	$ 675,170	$ 2,003,214

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Federal & State Grants Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	$ 1,787,647	$ 1,751,982	$ (35,665)
Miscellaneous	23,973	163,569	139,596
Total revenues	1,811,620	1,915,551	103,931
Expenditures:			
Current:			
General government	67,460	75,000	(7,540)
Police	3,122	40,549	(37,427)
Public improvements	-	24,998	(24,998)
Community development	570,559	640,637	(70,078)
Capital outlay	1,170,479	1,135,863	34,616
Total expenditures	1,811,620	1,917,047	(105,427)
Net change in fund balances	-	(1,496)	$ (1,496)
Fund balance, beginning of year	2,500	2,500	
Fund balance, end of year	$ 2,500	$ 1,004	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Community Development Block Grant Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	$ 2,583,168	$ 2,136,293	$ (446,875)
Miscellaneous	225,000	243,417	18,417
Total revenues	2,808,168	2,379,710	(428,458)
Expenditures:			
Current:			
Community development	1,554,726	1,088,884	465,842
Capital outlay	1,062,639	1,129,666	(67,027)
Total expenditures	2,617,365	2,218,550	398,815
Excess (deficiency) of revenues over (under) expenditures	190,803	161,160	(29,643)
Other financing sources (uses):			
Transfers out	(226,750)	(123,099)	103,651
Net change in fund balances	(35,947)	38,061	$ 74,008
Fund balance, beginning of year	171,789	171,789	
Fund balance, end of year	$ 135,842	$ 209,850	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
HOME Program Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	$ 232,235	$ 314,435	$ 82,200
Investment earnings	41	107	66
Miscellaneous	294,193	61,438	(232,755)
Total revenues	526,469	375,980	(150,489)
Expenditures:			
Current:			
Community development	526,469	425,269	101,200
Total expenditures	526,469	425,269	101,200
Net change in fund balances	-	(49,289)	$ (49,289)
Fund balance, beginning of year	140,015	140,015	
Fund balance, end of year	$ 140,015	$ 90,726	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Renaissance Grant Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	$ 502,748	$ 557,340	$ 54,592
Total revenues	502,748	557,340	54,592
Expenditures:			
Current:			
Community development	-	98,081	(98,081)
Capital outlay	502,748	456,511	46,237
Total expenditures	502,748	554,592	(51,844)
Net change in fund balances	-	2,748	$ 2,748
Fund balance, beginning of year	12,387	12,387	
Fund balance, end of year	$ 12,387	$ 15,135	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
One Stop Shop Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Miscellaneous	$ 20,720	$ -	$ (20,720)
Total revenues	20,720	-	(20,720)
Expenditures:			
Current:			
Community development	20,720	10,238	10,482
Total expenditures	20,720	10,238	10,482
Net change in fund balances	-	(10,238)	$ (10,238)
Fund balance, beginning of year	-	-	
Fund balance, end of year	$ -	$ (10,238)	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Police Forfeiture Justice Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	$ 239,779	$ 163,074	$ (76,705)
Investment earnings	122	199	77
Total revenues	239,901	163,273	(76,628)
Expenditures:			
Current:			
Police	239,901	308,817	(68,916)
Total expenditures	239,901	308,817	(68,916)
Net change in fund balances	-	(145,544)	$ (145,544)
Fund balance, beginning of year	299,239	299,239	
Fund balance, end of year	$ 299,239	$ 153,695	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
HOME Consortium Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	$ 174,341	$ 173,998	$ (343)
Miscellaneous	91,701	4,208	(87,493)
Total revenues	266,042	178,206	(87,836)
Expenditures:			
Current:			
Community development	266,042	178,206	87,836
Total expenditures	266,042	178,206	87,836
Net change in fund balances	-	-	$ -
Fund balance, beginning of year	-	-	
Fund balance, end of year	$ -	$ -	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Housing Voucher Program Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	$ 5,987,394	$ 5,764,213	$ (223,181)
Investment earnings	363	633	270
Miscellaneous	-	1,385	1,385
Total revenues	5,987,757	5,766,231	(221,526)
Expenditures:			
Current:			
Community development	5,973,994	5,939,012	34,982
Capital outlay	8,800	8,716	84
Total expenditures	5,982,794	5,947,728	35,066
Net change in fund balances	4,963	(181,497)	$ (186,460)
Fund balance, beginning of year	1,067,728	1,067,728	
Fund balance, end of year	$ 1,072,691	$ 886,231	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Police & Fire Supplemental Pay Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Intergovernmental	$ 901,339	$ 905,763	$ 4,424
Total revenues	901,339	905,763	4,424
Expenditures:			
Current:			
Police	423,029	428,194	(5,165)
Fire	478,310	477,569	741
Total expenditures	901,339	905,763	(4,424)
Net change in fund balances	-	-	$ -
Fund balance, beginning of year	-	-	
Fund balance, end of year	$ -	$ -	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Devou Park Maintenance Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Investment earnings	$ 167	$ 167	$ -
Total revenues	167	167	-
Expenditures:			
Current:			
General government	34,075	49,615	(15,540)
Capital outlay	51,696	25,900	25,796
Total expenditures	85,771	75,515	10,256
Excess (deficiency) of revenues over (under) expenditures	(85,604)	(75,348)	10,256
Other financing sources (uses):			
Transfers in	85,516	10,000	(75,516)
Net change in fund balances	(88)	(65,348)	$ (65,260)
Fund balance, beginning of year	-	-	
Fund balance, end of year	$ (88)	$ (65,348)	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Devou Park Master Plan Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Expenditures:			
Current:			
General government	$ 245,201	$ 272,656	$ (27,455)
Total expenditures	245,201	272,656	(27,455)
Net change in fund balances	(245,201)	(272,656)	$ (27,455)
Fund balance, beginning of year	319,645	319,645	
Fund balance, end of year	$ 74,444	$ 46,989	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Pension Obligation 2004 Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Expenditures:			
Debt service:			
Principal	$ 492,706	$ 445,000	$ 47,706
Interest	545,405	535,460	9,945
Total expenditures	1,038,111	980,460	57,651
Excess (deficiency) of revenues over (under) expenditures	(1,038,111)	(980,460)	57,651
Other financing sources (uses):			
Transfers in	1,038,111	1,254,630	216,519
Net change in fund balances	-	274,170	$ 274,170
Fund balance, beginning of year	401,000	401,000	
Fund balance, end of year	$ 401,000	$ 675,170	

CITY OF COVINGTON, KENTUCKY
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual -
Capital Improvement Fund
Fiscal Year Ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget
Revenues:			
Miscellaneous	$ 114,273	$ -	$ (114,273)
Total revenues	114,273	-	(114,273)
Expenditures:			
Current:			
General government	5,359,630	4,963,902	395,728
Community development	10,000	9,776	224
Capital outlay	8,957,890	5,196,181	3,761,709
Total expenditures	14,327,520	10,169,859	4,157,661
Net change in fund balances	(14,213,247)	(10,169,859)	$ 4,043,388
Fund balance, beginning of year	14,875,127	14,875,127	
Fund balance, end of year	$ 661,880	$ 4,705,268	

CITY OF COVINGTON, KENTUCKY
Combining Statement of Net Position
Internal Service Funds
June 30, 2014

	Liability Self Insurance	Medical Self Insurance	Total Internal Service Funds
Assets			
Cash and cash equivalents	$ 65,531	$ 945,614	$ 1,011,145
Due from other funds	818,348	18,906	837,254
Total assets	883,879	964,520	1,848,399
Liabilities			
Accounts payable	103,610	18,906	122,516
Claims payable	714,000	945,614	1,659,614
Total liabilities	817,610	964,520	1,782,130
Net Position			
Unrestricted	66,269	-	66,269
Total net position	$ 66,269	$ -	$ 66,269

CITY OF COVINGTON, KENTUCKY
Combining Statement of Revenues, Expenses
and Changes in Net Position
Internal Service Funds
Fiscal Year Ended June 30, 2014

	Liability Self Insurance	Medical Self Insurance	Total Internal Service Funds
Operating revenues:			
Insurance premiums	$ -	$ 4,755,895	$ 4,755,895
Other	-	20,090	20,090
Total operating revenues	-	4,775,985	4,775,985
Operating expenses:			
Contractual services	647,890	630,181	1,278,071
Claims and judgments	99,159	4,372,299	4,471,458
Total operating expenses	747,049	5,002,480	5,749,529
Operating loss	(747,049)	(226,495)	(973,544)
Non-operating revenues (expenses):			
Investment income	32	99	131
Loss before transfers	(747,017)	(226,396)	(973,413)
Transfers in	747,017	226,396	973,413
Change in net position	-	-	-
Net position, beginning of year, *restated*	66,269	-	66,269
Net position, end of year	$ 66,269	$ -	$ 66,269

CITY OF COVINGTON, KENTUCKY
Combining Statement of Cash Flows
Internal Service Funds
Fiscal Year Ended June 30, 2014

	Liability Self Insurance	Medical Self Insurance	Total Internal Service Funds
Cash flows from operating activities:			
Cash received from other funds	$ -	$ 5,520,772	$ 5,520,772
Cash received from other income	-	20,090	20,090
Cash payments to other funds	(94,898)	-	(94,898)
Cash payments for claims	(652,118)	(5,081,064)	(5,733,182)
Net cash flows from operating activities	(747,016)	459,798	(287,218)
Cash flows from noncapital financing activities:			
Transfers	747,017	226,396	973,413
Cash flows from investing activities:			
Interest income	32	99	131
Net change	33	686,293	686,326
Cash and cash equivalents, beginning of year	65,498	259,321	324,819
Cash and cash equivalents, end of year	$ 65,531	$ 945,614	$ 1,011,145

Reconciliation of operating loss to net cash flows from operating activities			
Operating loss	$ (747,049)	$ (226,495)	$ (973,544)
Adjustments to reconcile operating loss to net cash flows from operating activities:			
Changes in assets and liabilities:			
Prepaid items	-	48,497	48,497
Due from/to other funds	(94,898)	764,877	669,979
Accounts payable	94,931	16,029	110,960
Claims payable	-	(143,110)	(143,110)
Net cash flows from operating activities	$ (747,016)	$ 459,798	$ (287,218)

STATISTICAL SECTION

Schedule 1
City of Covington, Kentucky
Net Position by Component,
Current and Past Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2014	*(as restated)* 2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental Activities / Primary Government										
Net Investment in Capital Assets	$ 29,360,778	$ 33,666,204	$ 34,173,497	$ 36,088,303	$ 34,539,885	$ 36,577,167	$ 41,334,965	$ 39,709,313	$ 40,851,867	$ 41,483,876
Restricted for Capital Improvements	2,614,198	580,454	190,681	1,577,223	-	-	-	-	-	-
Restricted for Debt Service	401,000	401,000	-	-	-	-	-	-	-	-
Restricted for HUD Programs	3,622,306	3,565,125	16,648,464	1,318,568	-	-	-	-	-	-
Restricted for other purposes	16,139	14,887	-	27,361	91,138	193,693	550,682	888,123	1,307,719	1,593,846
Unrestricted (deficit)	(11,541,099)	(13,385,806)	(4,806,437)	8,933,230	13,587,660	16,638,487	16,603,105	17,286,863	15,104,828	1,947,609
Total Governmental Activities Net Position	$ 24,473,322	$ 24,841,864	$ 46,206,205	$ 47,944,685	$ 48,218,683	$ 53,409,347	$ 58,488,752	$ 57,884,299	$ 57,264,414	$ 45,025,331

Note: The City implemented GASB Statement Nos. 67 and 68 in fiscal year 2014, restating fiscal year 2013.

Schedule 2
City of Covington, Kentucky
Changes in Net Position
Current and Past Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Governmental Activities										
Expenses										
General Government	$ 5,916,248	$ 4,028,857	$ 4,250,735	$ 3,814,055	$ 6,089,518	$ 12,149,528	$ 7,807,872	$ 6,975,709	$ 7,781,587	$ 9,381,965
Police	14,177,725	15,464,519	16,455,964	16,536,402	16,498,516	15,593,684	15,501,195	14,873,868	14,482,761	13,660,495
Fire	13,060,943	13,727,885	15,180,999	15,318,421	15,048,966	14,224,985	14,753,208	13,595,531	12,512,512	11,930,245
Public Improvements	13,769,904	10,916,212	11,349,786	11,780,808	11,847,116	7,185,210	5,995,347	6,001,968	5,324,831	5,561,622
Recreation	-	683,742	711,584	734,672	796,215	2,740,960	2,426,639	2,350,546	2,325,250	2,575,568
Community Development	11,159,338	13,912,337	15,379,018	13,771,124	12,484,045	10,217,357	9,777,154	9,345,867	9,817,626	9,086,241
Parking Garage	734,598	783,059	768,661	865,947	732,362	701,986	747,677	734,401	727,419	803,715
Interest on Long-term Debt	1,654,352	2,181,165	1,324,845	1,676,776	1,716,153	2,052,549	1,935,242	1,872,816	1,919,888	1,437,434
Total Governmental Activities Expenses	60,473,108	61,697,776	65,421,592	64,498,205	65,212,891	64,866,259	58,944,334	55,750,706	54,891,874	54,437,285
Program Revenues										
General Government	940,479	1,214,447	936,996	968,682	1,136,249	993,267	1,145,333	1,096,558	1,215,111	761,041
Police	58,002	133,915	189,671	307,539	412,722	406,557	382,318	331,579	372,192	-
Fire	1,391,914	1,238,042	1,333,724	1,175,621	1,282,105	1,077,448	1,084,825	1,073,548	912,526	987,802
Public Improvements	2,343,079	2,506,617	2,342,050	2,082,635	1,918,838	1,859,171	1,464,056	1,170,789	1,226,952	1,092,970
Recreation	-	11,739	22,753	-	-	-	-	-	-	-
Community Development	738,833	79,873	169,209	98,196	79,317	37,833	41,860	114,177	56,017	-
Parking Garage	1,554,915	1,353,754	1,674,834	1,458,784	1,179,276	1,143,276	1,120,916	1,041,332	1,059,369	1,252,755
Operating Grants and Contributions	10,842,196	11,932,368	12,518,909	13,533,951	10,727,972	9,664,170	10,823,567	8,840,224	9,652,316	8,754,883
Capital Grants and Contributions	2,317,723	1,290,469	1,647,156	2,558,805	1,624,312	1,650,920	2,050,654	1,279,884	716,322	3,106,704
Total Governmental Activities Revenues	20,187,141	19,761,224	20,835,302	22,184,213	18,360,791	16,832,642	18,113,529	14,948,091	15,210,805	15,956,155
Program Revenues Over (Under) Expenses	(40,285,967)	(41,936,552)	(44,586,290)	(42,313,992)	(46,852,100)	(48,033,617)	(40,830,805)	(40,802,615)	(39,681,069)	(38,481,130)
General Revenues and Changes in Net Assets										
Taxes										
Real Property-Levied for General Purposes	6,085,654	6,043,907	6,141,332	6,481,511	6,114,035	6,024,885	4,680,355	5,590,772	5,913,401	4,399,593
Personal Property-Levied for General Purposes	764,100	655,275	796,259	516,905	557,999	653,748	601,109	553,057	589,401	496,286
Public Services	2,131,042	2,018,535	1,944,431	2,107,927	2,085,706	2,140,821	2,178,804	1,978,504	2,092,335	1,909,267
Taxes-Levied for Bank Deposits	65,134	62,729	87,014	71,391	60,603	53,161	67,789	59,042	62,232	62,323
Insurance Premium	5,672,059	5,279,824	4,988,428	5,155,801	5,588,067	5,430,628	4,860,194	5,242,337	5,324,223	5,240,743
Payroll	22,222,546	22,974,835	22,764,392	22,595,598	22,850,229	23,697,247	23,287,559	21,656,929	21,263,831	19,543,654
Net Profit	2,829,873	2,710,237	3,011,825	2,404,497	2,285,504	2,555,089	2,779,489	2,959,729	2,554,150	2,303,123
Other	-	303,944	805,015	840,953	796,091	790,752	647,217	552,641	490,889	358,751
Investment Earnings	4,287	96,889	23,084	47,503	25,094	112,064	317,416	389,885	310,239	228,382
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	444,832
Licenses and Permits	-	-	-	-	-	-	-	-	-	367,376
Gain (Loss) on Disposal of Capital Assets	-	-	-	-	-	-	-	214,010	576,242	-
Miscellaneous	159,730	577,261	2,286,030	1,817,908	1,298,108	1,495,817	2,015,326	2,225,594	1,710,802	1,878,640
Special Item	(17,000)	(102,445)								
Transfers In (Out)	-	-	-	-	-	-	-	-	-	(14,275,000)
Total General Revenues and Transfers	39,917,425	40,620,991	42,847,810	42,039,994	41,661,436	42,954,212	41,435,258	41,422,500	40,887,745	22,957,970
Change in Net Position	$ (368,542)	$ (1,315,561)	$ (1,738,480)	$ (273,998)	$ (5,190,664)	$ (5,079,405)	$ 604,453	$ 619,885	$ 1,206,676	$ (15,523,160)

Schedule 3
City of Covington, Kentucky
Fund Balances, Governmental Funds,
Current and Past Nine Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
				(as restated)						
	2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
General Fund										
Reserved	$ -	$ -	$ -	$ -	$ -	$ 41,414	$ 4,483	$ 1,611	$ 122,892	$ 5,388
Unreserved	-	-	-	-	342,498	730,555	735,839	675,320	550,513	229,739
Nonspendable	25,515	41,593	98,617	-						
Restricted	-	-	190,681	1,577,223						
Assigned	-	-	-	1,345,041						
Unassigned	2,178,928	738,275	1,043,176	698,391	-	-	-	-	-	-
Total General Fund	2,204,443	779,868	1,332,474	3,620,655	342,498	771,969	740,322	676,931	673,405	235,127
All Other Governmental Funds										
Reserved	-	-	-	-	-	-	-	-	-	-
Unreserved										
Special Revenue Funds	-	-	-	-	4,007,906	4,821,080	4,296,812	3,713,572	810,353	1,207,276
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
Nonspendable	-	250,000	-	-						
Restricted	6,356,203	16,339,191	1,574,894	1,345,929	-	-	-	-	-	-
Committed	427,865	299,239	385,496	255,605						
Unassigned (deficit)	(75,586)	-	-	(27,062)	-	-	-	-	-	-
Total All Other Governmental Funds	6,708,482	16,888,430	1,960,390	1,574,472	4,086,060	5,173,024	4,939,441	5,071,425	2,118,072	2,801,122
Total Governmental Funds	$ 8,912,925	$ 17,668,298	$ 3,292,864	$ 5,195,127	$ 4,428,558	$ 5,944,993	$ 5,679,763	$ 5,748,356	$ 2,791,477	$ 3,036,249

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

Schedule 4
City of Covington, Kentucky
Changes in Fund Balances - Governmental Funds
Current and Past Nine Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Revenues										
Taxes	$ 14,291,815	$ 14,029,560	$ 14,462,247	$ 14,643,134	$ 14,987,054	$ 14,707,297	$ 13,682,151	$ 13,554,260	$ 13,466,713	$ 12,762,470
Licenses and Permits	25,353,330	25,979,427	26,175,310	25,362,255	25,429,776	26,550,329	26,357,476	24,897,197	24,123,130	22,214,153
Intergovernmental	13,142,623	12,897,498	14,510,735	13,684,242	12,166,647	11,691,463	12,063,637	11,204,089	10,345,557	9,636,936
Charges for Services	5,936,837	6,063,670	6,063,323	5,394,348	5,227,073	4,744,058	4,527,680	4,104,170	4,128,721	4,094,568
Fines and Forfeitures	414,625	367,591	439,189	558,465	746,322	712,072	669,260	711,786	603,286	444,832
Investment Earnings	4,287	96,889	23,084	47,244	24,439	99,619	270,519	330,536	278,531	223,704
Miscellaneous	1,045,589	1,845,656	2,449,022	2,004,920	1,351,353	1,557,868	2,382,312	2,342,372	1,734,234	4,109,294
Total Revenues	60,189,106	61,280,291	64,122,910	61,694,608	59,932,664	60,062,706	59,953,035	57,144,410	54,680,172	53,485,957
Expenditures										
General Government	8,990,541	3,982,552	3,618,888	4,315,649	3,785,714	3,783,523	3,554,133	3,092,518	3,537,750	3,365,074
Police	13,945,665	14,207,005	15,588,778	15,913,878	15,593,494	14,886,861	15,013,636	14,359,432	14,109,828	13,239,562
Fire	12,745,412	13,203,841	13,842,762	13,630,059	13,812,934	13,306,319	13,959,222	12,989,464	12,168,065	11,429,099
General Service	8,816,579	5,994,547	5,891,702	6,268,883	6,514,905	6,690,503	5,644,983	5,292,360	5,180,111	5,358,833
Recreation	-	437,483	475,601	455,212	504,309	2,533,103	2,347,048	2,309,959	2,289,413	2,372,300
Community Development (includes recreation in 2014)	10,864,968	13,051,903	14,104,562	13,075,265	12,175,797	10,138,570	9,771,182	9,098,909	9,832,881	9,096,233
Parking Garage	731,835	780,016	743,506	865,947	732,362	701,986	747,677	734,401	727,419	803,715
Debt Service										
Principal	2,771,777	3,510,165	3,682,521	3,131,379	2,980,841	3,516,517	2,918,585	2,727,985	2,763,879	5,553,494
Interest and Other Charges	1,754,969	2,273,447	1,223,546	1,503,485	1,679,854	2,054,516	1,829,031	1,701,223	1,965,386	1,509,839
Bond Issuance Costs	-	-	-	59,623	-	-	-	-	-	-
Capital Outlay	8,135,571	5,485,409	5,847,540	4,300,102	4,982,528	6,715,050	4,159,916	3,257,621	2,701,215	6,722,898
Total Expenditures	68,757,317	62,926,368	65,019,406	63,519,482	62,762,738	64,326,948	59,945,413	55,563,872	55,275,947	59,451,047
Excess (Deficit) of Revenues Over Expenditures	(8,568,211)	(1,646,077)	(896,496)	(1,824,874)	(2,830,074)	(4,264,242)	7,622	1,580,538	(595,775)	(5,965,090)
Other Financing Sources (Uses)										
Proceeds From Issuance of Debt	-	-	-	2,806,827	-	4,509,181	-	1,630,000	-	12,806,241
Proceeds From Bond Refinancing	-	-	-	315,000	-	-	-	-	-	-
Payment to Refunded Lease Escrow Agent	-	-	-	(303,694)	-	-	-	-	-	-
Inception of Capital Leases	-	16,040,000	-	-	-	-	-	-	-	-
Transfers In	1,387,729	6,009,757	4,090,194	3,565,394	6,028,123	6,063,518	5,377,180	6,169,710	6,006,833	11,506,504
Transfer Out	(2,361,142)	(6,066,893)	(5,101,478)	(3,865,395)	(6,228,123)	(6,747,200)	(5,881,142)	(6,663,029)	(6,252,032)	(25,926,704)
Proceeds From Short-term Debt	-	-	-	-	1,040,563	75,419	427,747	-	596,202	-
Proceeds from Sale of Assets	33,684	141,092	5,517	13,647						
Miscellaneous	-	-	-	-	-	-	-	-	-	(1,003)
Total Other Financing Sources (Uses)	(939,729)	16,123,956	(1,005,767)	2,531,779	840,563	3,900,918	(76,215)	1,136,681	351,003	(1,614,962)
Special Item	(17,000)	(102,445)	-	-	-	-	-	-	-	-
Increase (Decrease) in Fund Balance	$ (9,524,940)	$ 14,375,434	$ (1,902,263)	$ 706,905	$ (1,989,511)	$ (363,324)	$ (68,593)	$ 2,717,219	$ (244,772)	$ (7,580,052)
Debt Service as a Percentage of Non-Capital Expenditures	8.03%	10.02%	8.11%	7.81%	8.07%	9.67%	8.51%	8.47%	9.00%	13.40%

Schedule 5
City of Covington, Kentucky
Occupational License Fees - Payroll Withholding
Current and Past Nine Fiscal Years

Fiscal Year	Total Gross Taxable Wages	Total Withholding Fees	Total Direct Rate
2014	$ 940,233,510	$ 23,035,721	0.0245%
2013	$ 949,297,388	$ 23,257,786	0.0245%
2012	$ 910,575,680	$ 22,764,392	0.025%
2011	$ 903,823,920	$ 22,595,598	0.025%
2010	$ 914,009,160	$ 22,850,229	0.025%
2009	$ 947,889,880	$ 23,697,247	0.025%
2008	$ 931,502,360	$ 23,287,559	0.025%
2007	$ 866,277,160	$ 21,656,929	0.025%
2006	$ 850,553,240	$ 21,263,831	0.025%
2005	$ 781,746,160	$ 19,543,654	0.025%

Source: City of Covington Finance Department

Schedule 6
City of Covington, Kentucky
Principal Occupational Payroll Tax Payers
Current and Nine Fiscal Years Ago

Taxpayer	
2014	**2005**
Ashland Inc.	A. C. Nielsen
Atkins & Pearce Manufacturing	Atkins & Pearce Manufacturing
Club Chef	Commonwealth of Kentucky
Commonwealth of Kentucky	Covington Board of Education
Covington Board of Education	Duro Bag
Fidelity Investments	Fidelity Investments
Internal Revenue Service	Internal Revenue Service
No. Ky. Mental Health and Retardation Board	No. Ky. Mental Health and Retardation Board
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, Kentucky
Assessed Value and Estimated Actual Value of Taxable Property
Curent and Past Nine Fiscal Years

Fiscal Year	Real Property	Personal Property	Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2014	$ 1,962,172	$ 139,733	$ 74,707	$ 2,098,172	0.3045
2013	$ 1,906,233	$ 150,542	$ 72,839	$ 1,983,936	0.3045
2012	$ 2,019,671	$ 156,875	$ 65,087	$ 2,111,459	0.2995
2011	$ 2,027,907	$ 168,468	$ 61,769	$ 2,134,606	0.2995
2010	$ 2,014,385	$ 159,294	$ 62,311	$ 2,111,368	0.2995
2009	$ 1,897,368	$ 217,242	$ 59,898	$ 2,054,712	0.2995
2008	$ 1,861,435	$ 187,585	$ 61,243	$ 1,987,777	0.2995
2007	$ 1,828,664	$ 195,876	$ 58,296	$ 1,966,244	0.2920
2006	$ 1,687,690	$ 203,668	$ 57,570	$ 1,833,788	0.2842
2005	$ 1,617,670	$ 160,191	$ 57,720	$ 1,720,141	0.2990

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, Kentucky
Direct and Overlapping Property Tax Rates
Current and Past Nine Fiscal Years
(rate per $100 of assessed value)

		School Districts					Totals	
Fiscal Year	City Direct Rate	Covington Independent	Kenton County	County	State	Other	Covington Schools Area	Kenton County Schools Area
2014	0.3045	1.132	0.591	0.1480	0.122	0.1713	1.8778	1.3368
2013	0.3045	1.153	0.557	0.1480	0.122	0.1713	1.8988	1.3028
2012	0.2995	1.117	0.557	0.1480	0.122	0.1720	1.8585	1.2985
2011	0.2995	1.056	0.557	0.1480	0.122	0.1740	1.7995	1.3005
2010	0.2995	1.026	0.558	0.1480	0.122	0.1650	1.7605	1.2925
2009	0.2995	0.989	0.558	0.1420	0.122	0.1530	1.7055	1.2745
2008	0.2924	0.961	0.564	0.1420	0.124	0.1488	1.6682	1.2712
2007	0.2842	0.961	0.564	0.1410	0.124	0.1488	1.6590	1.2620
2006	0.2990	0.922	0.556	0.1380	0.128	0.1410	1.6132	1.2472
2005	0.2990	0.942	0.556	0.1360	0.131	0.1350	1.6430	1.2570

Notes: Portions of the City of Covington are located in the Kenton County Common School District and taxes are paid 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, Kentucky
Principal Real Property Tax Payers
Current and Eight Fiscal Years Ago

	2014			2005		
Taxpayer	**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	$ 184,387,500	1	6.85%	$ 85,932,800	2	4.16%
CPX-Rivercenter Development Corp	82,844,400	2	3.08%	147,046,300	1	7.13%
EHP Rivercenter Landmark	33,578,000	3	1.25%			
CIP II Buckeye Hotel	15,174,000	4	0.56%			
Scott Street Land Co. Inc	14,960,900	5	0.56%	14,960,900	3	0.73%
J & S Latonia Centre Ky LLC	12,314,000	6	0.46%	10,482,000	4	0.51%
Atkins & Pearce Manufacturing	11,460,000	7	0.43%	10,000,000	5	0.48%
FMR Kentucky I LLC	11,184,000	8	0.42%			
Trustees Latonia Plaza KY LLC	7,916,000	9	0.29%			
Truss Latonia Plaza KY LLC	6,824,500	10	0.25%			
OZRE Lodging I LLC				9,000,000	6	0.44%
Scottenstein Trust				6,349,000	9	0.34%
Attria Highland Crossing				6,165,000	10	0.31%
Pioneer Park Association #2 LLC				6,812,500	8	0.31%
Latonia Realty Inc.				7,000,000	7	0.44%
Total	$ 380,643,300		14.15%	$ 303,748,500		14.85%

Source: City of Covington Finance Department

Schedule 10
City of Covington, Kentucky
Property Tax Levies and Collections
Current and Past 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
2014	$ 6,490,788	$ 5,843,739	90.03%	N/A	$ 5,843,739	90.03%
2013	$ 6,376,341	$ 6,076,779	95.30%	$ 19,728	$ 6,096,507	95.61%
2012	$ 6,287,872	$ 6,042,731	96.10%	$ 102,489	$ 6,145,220	97.73%
2011	$ 6,328,051	$ 6,145,818	97.12%	$ 77,469	$ 6,223,287	98.34%
2010	$ 6,411,125	$ 6,146,928	95.88%	$ 167,691	$ 6,314,619	98.49%
2009	$ 6,330,592	$ 6,099,103	96.34%	$ 154,313	$ 6,253,416	98.78%
2008	$ 6,159,153	$ 5,989,960	97.25%	$ 113,581	$ 6,103,541	99.10%
2007	$ 5,849,979	$ 5,695,725	97.36%	$ 119,658	$ 5,815,383	99.41%
2006	$ 5,590,484	$ 5,438,599	97.28%	$ 122,611	$ 5,561,210	99.48%
2005	$ 5,478,874	$ 5,315,184	97.01%	$ 132,173	$ 5,447,357	99.42%

Source: City of Covington Finance Department

Schedule 11
City of Covington, Kentucky
Ratios of Outstanding Debt by Type
Current and Past 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)
2014	15,826	27,974	43,800	5.25%	$ 1,076
2013	16,864	29,708	46,572	5.55%	$ 1,137
2012	18,961	15,081	34,042	4.08%	$ 834
2011	21,289	16,248	37,537	4.62%	$ 924
2010	20,811	17,663	38,474	4.16%	$ 893
2009	21,622	18,782	40,404	4.35%	$ 935
2008	23,790	15,271	39,061	3.62%	$ 901
2007	25,888	16,153	42,041	3.90%	$ 969
2006	27,907	15,231	43,138	4.00%	$ 995
2005	26,487	19,415	45,902	4.26%	$ 1,058

Note: Details of city's outstanding debt can be found in the notes to the financial statements.

(a) See Schedule 15 for personal income and population data.

Schedule 12
City of Covington, Kentucky
Ratios of General Bonded Debt Outstanding
Current and Past Nine Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2014	$ 15,826	0.75%	$ 364.91
2013	$ 16,865	0.85%	$ 411.78
2012	$ 18,961	0.90%	$ 464.61
2011	$ 21,289	1.00%	$ 523.84
2010	$ 20,811	0.99%	$ 483.06
2009	$ 21,622	1.05%	$ 498.55
2008	$ 23,790	1.20%	$ 548.54
2007	$ 25,888	1.32%	$ 596.91
2006	$ 27,907	1.52%	$ 596.86
2005	$ 26,487	1.54%	$ 643.46

Source: City of Covington Finance Department

Schedule 13
City of Covington, Kentucky
Direct and Overlapping Governmental Activities Debt
June 30, 2014
(amounts in thousands)

Governmental Unit	Debt Outstanding		Estimated Percentage Applicable [3]	Amount Applicable to the City of Covington
Kenton County	$ 50,010	(1)	25.10%	$ 12,553
Covington Indpendent School District	14,671	(2)	100.00%	14,671
Subtotal, overlapping debt				27,224
City of Covington direct debt				15,826
Total direct and overlapping debt				$ 43,050

Note: Overlapping governments are those that coincide, at least in part, with geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the property taxpayers of the City of Covington. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the property taxpayers should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Sources:
(1) - Kenton County Treasurer's Office
(2) - Covington Independent School District, Finance Department
(3) - The percentage of overlapping debt applicable to the City of Covington is estimated using the percentage of Covington residents in each of the overlapping districts as estimated by the U.S. Census Bureau as of July 1, 2013.

Schedule 14
City of Covington, Kentucky
Legal Debt Margin Information
Current and Past Nine Fiscal Years
(dollars in thousands)

Legal Debt Margin Calculation for Fiscal Year 2014		
Assessed value		$ 2,098,172
Debt limit (10% of assessed value)		$ 209,817
Debt applicable to limit:		
General Obligation	$ 15,826	
Total debt applicable to limit		$ 15,826
Legal debt margin		$ 193,991

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Debt limit	$ 209,817	$ 198,394	$ 211,146	$ 213,461	$ 207,746	$ 205,471	$ 198,778	$ 196,624	$ 183,379	$ 172,014
Total net debt applicable to limit	15,826	16,865	18,961	21,289	20,811	21,622	23,790	25,888	27,907	26,487
Legal debt margin	$ 193,991	$ 181,529	$ 192,185	$ 192,172	$ 186,935	$ 183,849	$ 174,988	$ 170,736	$ 155,472	$ 145,527
Total net debt applicable to the limit as a percentage of debt limit	7.54%	8.50%	8.98%	9.97%	10.02%	10.52%	11.97%	13.17%	15.22%	15.40%

Source: City of Covington Finance Department

Schedule 15
City of Covington, Kentucky
Demographic and Economic Statistics
Current and Past Nine Fiscal Years

Fiscal Year	Population (a)	Personal Income (a) *(thousands of dollars)*	Per Capita Personal Income (a)	Median Age (a)	School Enrollment (b)	Unemployment Rate (c)
2014	40,713	834,667	20,563	33.1	4,165	6.5%
2013	40,956	839,270	20,492	35.7	4,053	8.2%
2012	40,811	834,667	20,492	35.7	3,572	8.9%
2011	40,640	813,003	20,005	34.6	3,914	9.7%
2010	43,082	924,927	21,469	35.9	4,066	10.2%
2009	43,235	928,212	21,469	35.9	4,002	10.4%
2008	43,370	1,077,787	24,581	33.1	3,958	5.6%
2007	43,370	1,077,787	24,851	33.1	3,937	4.5%
2006	43,370	1,077,787	24,851	33.1	3,975	5.2%
2005	43,370	1,077,787	24,851	33.1	3,889	5.6%

Sources:

(a) City Data Moving Information & Guides - movingideas.org
U. S. Department of the Census (2010 Census) & (1996 Census)
2009 Data U. S. Census Bureau 2006-2008 American Community Survey 3-Year Estimate
2013 U.S. Census

(b) Kentucky Department of Education

(c) Kentucky Cabinet for Workforce Development

Schedule 16
City of Covington, Kentucky
Principal Employers
Current and Eight Fiscal Years Ago [(1)]

	2014			2006		
Employer	**Employees**	**Rank**	**Percentage of Total City Employment**	**Employees**	**Rank**	**Percentage of Total City Employment**
Internal Revenue Service	4,500	1	16.79%	4,800	1	18.38%
Fidelity Investments	4,100	2	15.30%	3,627	2	17.86%
Covington Board of Education	925	3	3.45%	914	3	3.20%
St. Elizabeth Hospital	800	4	2.99%	800	4	3.17%
State of Kentucky	360	5	1.34%	360	6	1.64%
Ommicare				285	7	1.38%
Club Chef	590	6	2.20%			
Rosedale Manor	463	7	1.73%	304	10	0.67%
No. KY MH-MR Board	162	8	0.60%	270	9	0.82%
Atkins & Pearce Mftg	225	9	0.84%	250	8	1.12%
BBI Marketing				400	5	2.28%
Ashland Inc	100	10	0.37%			
Total	12,225		45.62%	12,010		50.52%

(1): Data is unavailable fiscal 2005

Source: City of Covington Finance Department

Schedule 17
City of Covington, Kentucky
Full-Time-Equivalent City Government Employees by Function/Program
Current and Past Nine Fiscal Years

	Full-time-Equivalent Employees as of June 30									
Function/Program	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
General Government										
Management Services	14	10	16	17	16	16	16	16	17	17
Finance	10	10	11	13	13	14	14	14	15	15
Economic Development	10	12	7	7	7	7	7	6	5	5
Code Enforcement	8	9	11	12	12	11	11	9	10	10
Housing	7	8	12	15	16	16	16	16	16	16
Police										
Officers	106	104	110	112	116	116	116	116	116	116
Civilians	9	9	24	28	31	31	31	33	34	34
Fire										
Firefighters and Officers	113	121	118	118	118	118	118	118	118	118
Civilians	1	1	1	1	1	1	1	1	1	1
Other										
Public Improvements	47	47	47	47	51	35	35	35	36	38
Engineering	0	1	4	4	4	4	4	3	2	2
Parks and Recreation	1	1	2	2	2	20	20	18	20	20
Total	326	333	363	376	387	389	389	385	390	392

Source: City of Covington Finance Department

Schedule 18
City of Covington, Kentucky
Operating Indicators by Function/Program
Currrent and Past Nine Fiscal Years

	Fiscal Year									
	2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Function/Program										
Police										
Physical arrests	4,678	4,909	5,420	5,763	5,899	5,248	5,321	5,762	5,819	5,342
Parking violations	10,952	11,133	15,891	14,520	13,926	15,873	14,230	14,863	15,622	14,721
Traffic violation	5,117	4,990	4,991	5,149	5,796	5,116	5,856	5,778	5,721	5,894
Fire										
Fire responses	3,126	2,798	2,716	2,731	2,657	2,818	3,658	3,752	3,985	4,167
Ambulance runs	9,304	9,106	9,523	9,112	8,595	10,542	11,549	10,246	9,742	8,602
Inspections	1,963	1,839	1,853	2,058	1,966	2,212	2,440	2,540	2,576	2,521

Sources: City of Covington Police and Fire Record Management System

Schedule 19
City of Covington, Kentucky
Capital Assets Statistics by Function/Program
Current and Past Nine Fiscal Years

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Function/Program										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	88	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)	191	191	120	120	120	120	120	120	130	126
Streetlights	3,785	3,785	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,246
Miles of Sidewalks	1,545									
Parks and recreation										
Parks	22									
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	9	9	10	10	10	10	10	10	10	10
Soccer/football fields	2	4	5	5	5	5	5	5	5	5
Swimming pools	2	3	4	4	4	4	4	4	4	4
Water Park	1									
Golf courses	1									

Source: City of Covington Police Department
City of Covington Fire Department
City of Covington Department of Public Improvement

SINGLE AUDIT SECTION

CITY OF COVINGTON, KENTUCKY
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2014

Federal Grantor / Pass- Through Grantor / Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Revenues	Expenditures
U.S. Department of Housing and Urban Development				
Section 8 Housing Choice Vouchers	14.871	KY-133-VO-0054-0F04	$ 5,778,944	$ 5,960,441
Community Development Block Grants/ Entitlement Grants	14.218	B-11-MC-21-0001	2,136,293	2,136,293
HOME Investment Partnership Programs	14.239	M-10-MC-21-0200	488,433	488,433
Community Challenge Planning Grants	14.704	CC-PKY-0009-10	149,383	149,383
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	N/A	194,193	194,193
Pass Through From Kentucky Department of Local Government				
Community Development Block Grants/ State's Program (NSP1)	14.228	N09-017	196,123	196,123
Total U.S. Department of Housing and Urban Development			8,943,369	9,124,866
U.S. Department of Agriculture Forest Service				
Pass Through From Kentucky Division of Forestry				
Urban and Community Forestry Program	10.675	PON2-128-1400000345	9,998	9,998
Total U.S. Department of Agriculture Forest Service			9,998	9,998
U.S. Department of Transportation				
Pass Through From Kentucky Transportation Cabinet				
State and Community Highway Safety	20.600	AL-2012-15-00-00	28,317	28,317
Pass Through From Kentucky Transportation Cabinet				
Highway Planning and Construction - Streetscape Phase III	20.205	PO2 1200005121	458,189	458,189
Highway Planning and Construction - Latonia Avenue	20.205	PO2 1300005183	694,676	694,676
Highway Planning and Construction - Caroline Avenue	20.205	PO2 1300005873	349,467	349,467
			1,502,332	1,502,332
Total U.S. Department of Transportation			1,530,649	1,530,649
U.S. Department of Justice				
Pass Through From Kenton County				
Edward Byne Memorial Justice Assistance Grant Program	16.738	N/A	56,592	56,592
Total U.S. Department of Justice			56,592	56,592
U.S. Environmental Protection Agency				
Brownfield Assessments and Cleanup - Stewart Ironworks Cleanup	66.818	BF-95482411	164,703	164,703
Total U.S. Environmental Protection Agency			164,703	164,703
Total Federal Financial Assistance			$ 10,705,311	$ 10,886,808

CITY OF COVINGTON, KENTUCKY
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2014

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes Federal grant activity of the City and is presented on the modified 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.

Note 2 - Outstanding Notes

The community development loans outstanding at June 30, 2014 totaled $5,439,492 under CFDA 14.218, $2,435,499 under CFDA 14.228, and $7,294,962 under CFDA 14.239.

Note 3 - Subrecipients

Of the Federal expenditures presented in the Schedule, the City provided Federal awards to subrecipients as follows:

Subrecipients	Amount
CFDA 14.218 - Community Development Block Grants/Entitlement Grants:	
Center for Great Neighborhoods	$ 132,447
CFDA 14.228 - Community Development Block Grants/State's Program (NSP1):	
Center for Great Neighborhoods	5,784
Housing Opportunities of Northern Kentucky	1,920
CFDA 14.239 - HOME Investment Partnerships Program:	
Entryway, Inc.	63,795
Center for Great Neighborhoods	30,688

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*

INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky ("City") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 29, 2014, wherein we noted the City implemented Governmental Accounting Standards Board Statements No. 65, 67, and 68 and the financial statements of Devou Properties, Inc. were audited by other auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider finding 2014-001 described in the schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in findings 2014-002 and 2014-003 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 29, 2014

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the City of Covington, Kentucky's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 2014-004. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is describe in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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'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. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as finding 2014-004 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133
We have audited the financial statements of the City as of and for the year ended June 30, 2014, and have issued our report thereon dated December 29, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 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 State of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
March 25, 2015

CITY OF COVINGTON, KENTUCKY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	None

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	Yes

Identification of major programs:

- CFDA 14.871 – Section 8 Housing Choice Vouchers
- CFDA 20.205 – Highway Planning and Construction

Dollar threshold to distinguish between Type A and Type B Programs:	$326,604
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2014-001 – Material Weakness – Prior Period Adjustment

The City restated its beginning fund balance in the General Fund and beginning net position in the Medical Self Insurance Fund to correct errors made in prior years in the due to/due from accounts between these fund. Our professional standards consider the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error a material weakness in internal control over financial reporting.

***Management's Response**: We concur.*

Finding 2014-002 – Significant Deficiency – Accounting Procedures

During our review of the City accounting and financial reporting processes, we noted the City does not have a comprehensive accounting procedures manual. A manual of written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form designed by management. A good accounting manual would aid in the training of new employees.

Management's Response*: We agree with the auditor's comments. However, the City does have an accounting manual but it is in need of a complete overhaul. The City will be implementing new computer software in 2015. The manual will be updated to include all new information and procedures as it relates to the new software as well all of the changes that have occurred in the City over the last year that are currently documented in memo format. The City staff we are advised of all revisions and trained on the new software.*

Finding 2014-003 – Significant Deficiency – Tax Collection Processes

During our review of property and other taxes and license fees, we observed the following:

- The tax auditors have the access and ability to initiate and authorize transactions, record and process transactions, reconcile and report on the transactions, and authorize refunds which represents a lack of segregation of duties. Without proper segregation of duties, the risk increases that errors or fraud could occur and not be detected within a timely basis. We recommend the City find ways to segregate these duties or develop additional monitoring controls to mitigate risk.

- Due to a recent reorganization, staff has been assigned new responsibilities. However, we noted a lack of formal training resources and manuals, such as a formalized manual of written procedures, instructions, and assignments of duties and checklists for processes and auditing that could assist with the training and reduce misunderstandings, errors, duplicated or wasted efforts and other situations that can result in inaccurate or untimely accounting records. We recommend additional training for staff and the development of formalized procedures and policies.

Management's Response*: We agree with the auditors' comments, and the following actions have been taken or will be taken to improve the situation. We will find ways to segregate the duties relating to the tax collection process. The City is currently seeking new staff to help improve this process and implement the needed segregation. The City is also currently seeking a replacement for the individual currently responsible for revenue management. Once in place, staff will be trained and procedures formalized to improve the billing and collection process. Succession plans are underway and the development of a backup employee with knowledge of the billing and collection process has been planned for. The staff will be advised of all revisions. Also, the City will be implementing new software beginning July 2015.*

Section III – Federal Award Findings and Questioned Costs

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding 2014-004 – CFDA 14.871 Section 8 Housing Choice Vouchers

Condition: The City did not submit its unaudited financial information, for the fiscal year ended June 30, 2013, until July 2014, which was rejected by HUD, and then resubmitted in December 2014. The City still hasn't submitted the audited financial information.

Criteria: 24 CFR 5.801, *Uniform Financial Reporting Standards*, require unaudited financial statements to be submitted 60 days after the fiscal year end, and audited financial statements to be submitted no later than 9 months after the fiscal year end.

Cause: The City experienced turnover in key positions during the fiscal year, which caused the oversight in financial reporting.

Effect: The City was not in compliance with reporting requirements.

Recommendation: We recommend the City implement procedures to ensure personnel are knowledgeable with reporting requirements of federal awards.

View of Responsible Officials: The City believes this year had extenuating circumstances that had occurred during this time frame that did not allow for compliance. Staff turnover, correction of errors and difficulty of the process resulted in the late filing. Steps have been taken and issues have been resolved to allow for compliance in the future.

Section IV – Schedule of Prior Year Findings and Questioned Costs

Finding 2013-001 – Material Weakness – Audit Adjustments

During the course of the FY13 audit, misstatements in the financial statements were identified that were not detected by the City's internal control over financial reporting.

Status: Corrected.

Finding 2013-002 – Material Weakness – Purchasing and Accounts Payable Processes

The Accounts Payable Clerk is responsible for processing payments and maintaining the vendor master database which represents a lack of segregation of duties. Checks printed with electronic signatures are not subjected to independent review before being mailed. Passwords within the system were not required to be changed periodically and the systems administrator (former finance director) had access to user names and their passwords. The City lacked effective cut-off procedures to properly capture expenditures and corresponding liabilities in the appropriate accounting period.

Status: Corrected with the exception of the lack of segregation issue related to the vendor master database which still exists due to software limitations. Management has implemented mitigating controls over the purchasing and accounts payable process. This item was addressed in a separate communication to management and those charged with governance.

Finding 2013-003 – Significant Deficiency – Accounting Procedures

The City lacked a comprehensive accounting procedures manual.

Status: Repeated as Finding 2014-002.

Finding 2013-004 – Significant Deficiency – Notes Receivable

The City lacked processes to assess the collectability of its outstanding notes, and thus accurately report receivables in the financial statements. There was a lack of segregation of duties over maintaining loan database, reconciling with the general ledger and release of the mortgages.

Status: Corrected.

Finding 2013-005 – Significant Deficiency – Tax Collection Processes

The City lacked segregation of duties within its tax software, lacked formal training resources and manuals, and succession planning for retire-eligible personnel.

Status: Repeated as Finding 2014-003.

Finding 2013-006 – Significant Deficiency – Cash Receipts Processes and Reconciliation

The City lacked segregation of duties over general ledger maintenance and preparation of monthly bank reconciliations. The City also lacked supporting documentation for many of its reconciling items within the bank reconciliations.

Status: Corrected.