

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

Prepared By:
Robert J. Due
Director of Finance

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

	PAGE
INTRODUCTORY SECTION	
Letter of Transmittal	1 – 5
GFOA Certificate of Achievement	6
Organizational Chart	7
List of Principal Officials	8
 FINANCIAL SECTION	
Independent Auditors' Report	9 – 10
Management's Discussion and Analysis (MD&A)	11 – 23
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	24
Statement of Activities	25
Fund Financial Statements	
Balance Sheet – Governmental Funds	26
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	27
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds to the Statement of Activities	29
Statement of Net Assets – Proprietary Funds	30
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	31
Statement of Cash Flows – Proprietary Funds	32
Statement of Fiduciary Net Assets – Fiduciary Funds	33
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	34
Notes to the Financial Statements	35 – 57

**CITY OF COVINGTON, KENTUCKY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Year Ended June 30, 2011
 TABLE OF CONTENTS
 (Continued)**

	PAGE
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance	
Budget and Actual – General Fund	58 – 60
Budget and Actual – Community Development Block Grant	61
Budget and Actual – Home Program	62
Budget and Actual – Housing Voucher Program	63
OTHER SUPPLEMENTARY INFORMATION	
Combining Financial Statements – Non-Major Governmental Funds	
Combining Balance Sheet – Non-Major Governmental Funds	64 – 65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	66 – 67
Individual Fund Schedules – Non-Major Governmental Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Police and Fire Incentive	68
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Devou Park Maintenance	69
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Devou Park Master Plan	70
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Federal and State Grant Fund	71
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Police Forfeiture	72
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – CAD System	73
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Renaissance Grant Fund	74
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Home Consortium Fund	75
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Homeless Prevention Fund	76
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Neighborhood Stabilization Program	77
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – 2004 Pension Obligation Bonds	78
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – 2005 Refunding Bonds	79

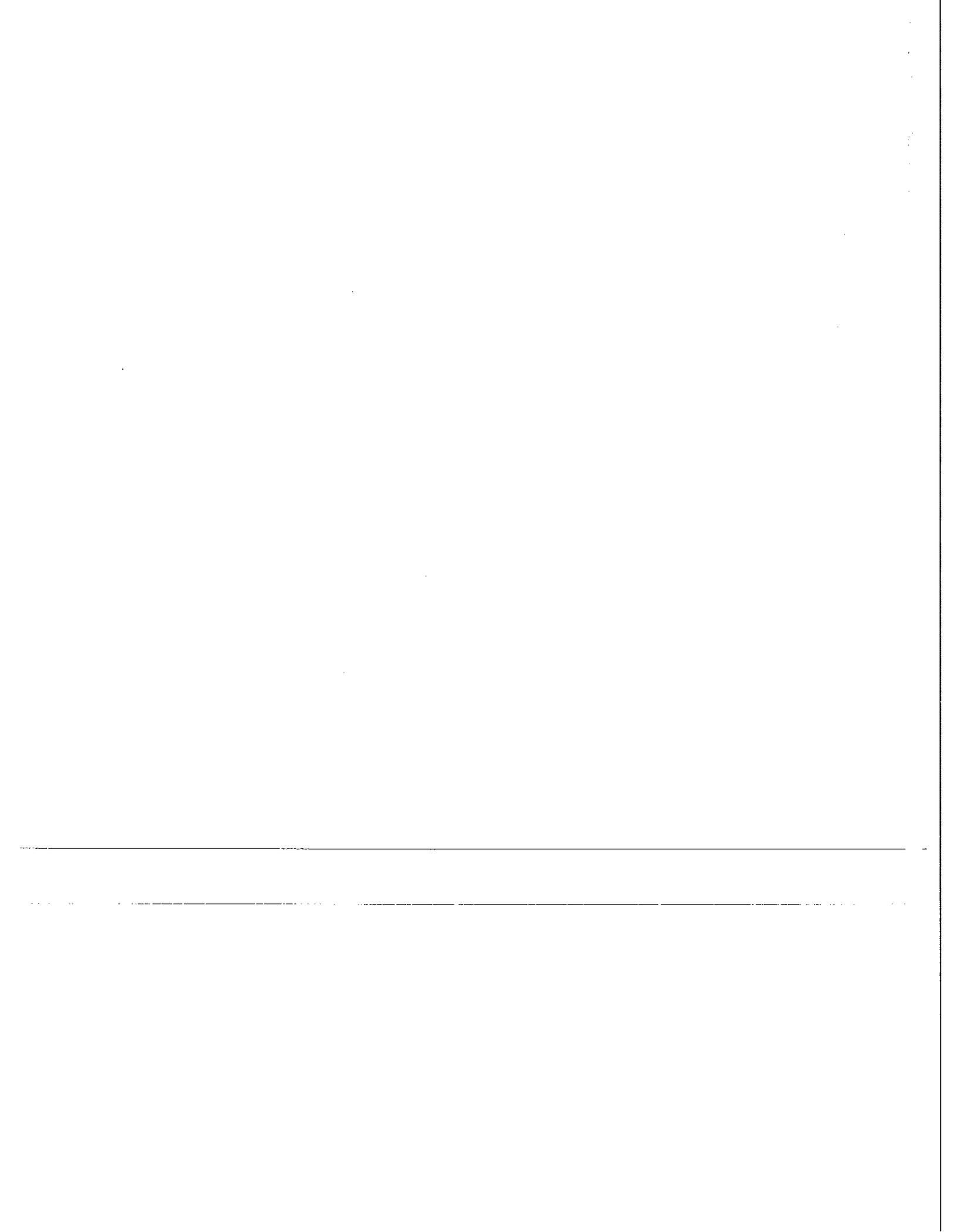
**CITY OF COVINGTON, KENTUCKY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Year Ended June 30, 2011
 TABLE OF CONTENTS
 (Continued)**

	PAGE
Combining Financial Statements – Proprietary Funds	
Combining Statement of Net Assets – Internal Service Funds	80
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds	81
Combining Statement of Cash Flows – Internal Service Funds	82
Individual Fund Schedules – Proprietary Funds	
Schedule of Revenues, Expenses and Changes in Fund Net Assets – Budget and Actual – Liability Insurance	83
Schedule of Revenues, Expenses and Changes in Fund Net Assets – Budget and Actual – Medical and Dental Insurance	84
 STATISTICAL SECTION	
Statistical Section Narrative and Contents	85
Net Assets by Component	86
Change in Net Assets	87
Fund Balances, Governmental Funds	88
Changes in Fund Balance, Governmental Funds	89
Occupational License Fees - Payroll Withholding	90
Principal Occupational Payroll Tax Payers	91
Assessed Value and Estimated Actual Value of Taxable Property	92
Direct and Overlapping Property Tax Rates	93
Principal Property Tax Payers	94
Property Tax Levies and Collections	95
Ratios of Outstanding Debt by Type	96
Ratios of General Bonded Debt Outstanding	97
Legal Debt Margin Information	98
Demographic and Economic Statistics	99
Principal Employers	100
Full-Time-Equivalent City Government Employees by Function/Program	101
Operating Indicators by Function/Program	102
Capital Assets Statistics by Function/Program	103

**CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2011
TABLE OF CONTENTS
(Continued)**

	PAGE
SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	104
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	105 – 106
Independent Auditors' Report on Compliance with Requirements that Could have a Direct and Material Effect on each of its Major Programs and on Internal Control Over Compliance in Accordance with OMB Circular A-133	107 – 108
Schedule of Findings and Questioned Costs	109 – 111
Schedule of Status of Prior Year Findings and Questioned Costs	112 – 113

INTRODUCTORY SECTION





CITY OF COVINGTON

638 MADISON AVENUE • COVINGTON, KENTUCKY 41011-2298

OFFICE OF THE CITY MANAGER

December 13, 2011

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

Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) in accordance with the implementation of Government Standards Board (GASB) Statement 34, and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Covington for the fiscal year ended June 30, 2011.

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

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

The City of Covington's financial statements have been audited by Von Lehman & Company, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Covington for the fiscal year ended June 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the

overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Covington's financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Profile of the Government

The City of Covington, founded in 1815, is located in the northern most part of the state, situated in Kenton County and is part of the Northern Kentucky Region, which ranks as one of the top growth areas in Kentucky. The City of Covington currently occupies a land area of 13.1 square miles and serves an estimated population of 40,640. The City of Covington is empowered to levy numerous taxes and fees. Its major revenue sources include an occupational license tax levied on gross wages and net profits of businesses, an insurance premiums tax and a property tax on both real and personal properties.

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

The City of Covington provides a full range of services including a full time professional police service and full time professional fire service; advanced life support emergency services; street maintenance and improvement; waste collection services; a full range

of recreational areas and activities; cultural events; planning and zoning; housing rehabilitation and development; and public nuisance and zoning code enforcement. In addition to these activities, the governing body is responsible for funding the Employees' Retirement Fund and the Police and Firemen's Retirement Funds.

The annual budget serves as the foundation for the City of Covington's financial planning and control. Budget targets are set for each city department based on current revenue estimate contained in the five year plan adjusted for current trends. All departments of the City of Covington are required to submit budget requests for appropriation to the City Manager. The budget requests must be within budget targets. The City Manager uses these requests as the starting point for developing a proposed balanced budget. The City Manager then presents the proposed balanced budget to the City Commissioners for review. The final budget is adopted prior to July 1 of each year. The appropriated budget is prepared by fund and department (e.g., police). Department heads may make transfers of appropriations within a department with the approval of the City Manager, or his designee. The City Manager cannot make transfers of appropriations between funds without the approval of the City Commissioners. Expenditures may not legally exceed budgeted appropriations at the fund level. Any revisions to the budget that would alter total revenues and total expenditures of any fund must be approved by the City Commissioners. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 58-60 as part of the basic financial statements for the governmental funds. For governmental funds with appropriated annual budgets other than the general fund, this comparison is presented in the governmental fund subsection of this report, which starts on page 61. Also included in the governmental fund subsection are project-length budget-to-actual comparisons for each governmental fund for which a project-length budget has been adopted (i.e., the capital projects funds).

Information Useful in Assessing the Economic Condition

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

Local economy: Covington has maintained its efforts in developing economic resources in the Greater Cincinnati/Northern Kentucky region. The consistent and persistent effort put forth by Covington's elected and appointed officials and other community leaders over the past twenty years has positioned the City for economic growth in the foreseeable future. According to the 2012 Regional Economic Outlook published by the Northern Kentucky Chamber of Commerce, the recovery has been painfully slow. However, the Cincinnati metropolitan area is on pace to post an increase in gross regional product and the number of jobs. While the rate of growth will continue to be slow, economic growth is expected in 2012. The unemployment rate in the Cincinnati USA region has come down a bit over the past twelve months. It is expected to end the year at 9.1% and decline slightly to 8.7% in 2012 still quite high compared to the average unemployment rate of 4.4% during the decade prior to the recession. In addition to a continued weakness in the labor market, the Northern Kentucky Chamber of Commerce anticipates a very slow recovery in the housing market and modest growth in economic activity.

The City is heavily reliant on economically sensitive revenue. Occupational license fees (payroll tax and net profit taxes) represent 52.7% of all General Fund Revenue. For the second consecutive year, occupational license fees were less than the previous year. Detailed information can be found in the Management Discussion & Analysis in the Financial Section of this report.

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

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

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

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

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

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

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

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

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

Financial Policies and Planning

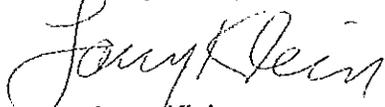
This report has been prepared in compliance with the requirements of Government Accounting Standards Board (GASB) No. 54. The goal of GASB 54 is to report governmental fund balances based on a hierarchy that shows from the highest to the lowest, the level or form of constraints on fund balances and,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

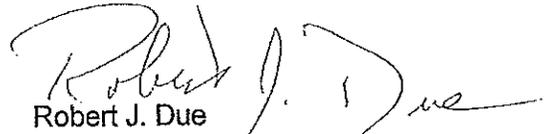
Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the eighteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

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

Respectfully submitted,


Larry Klein
City Manager


Robert J. Due
Finance Director

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Covington
Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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



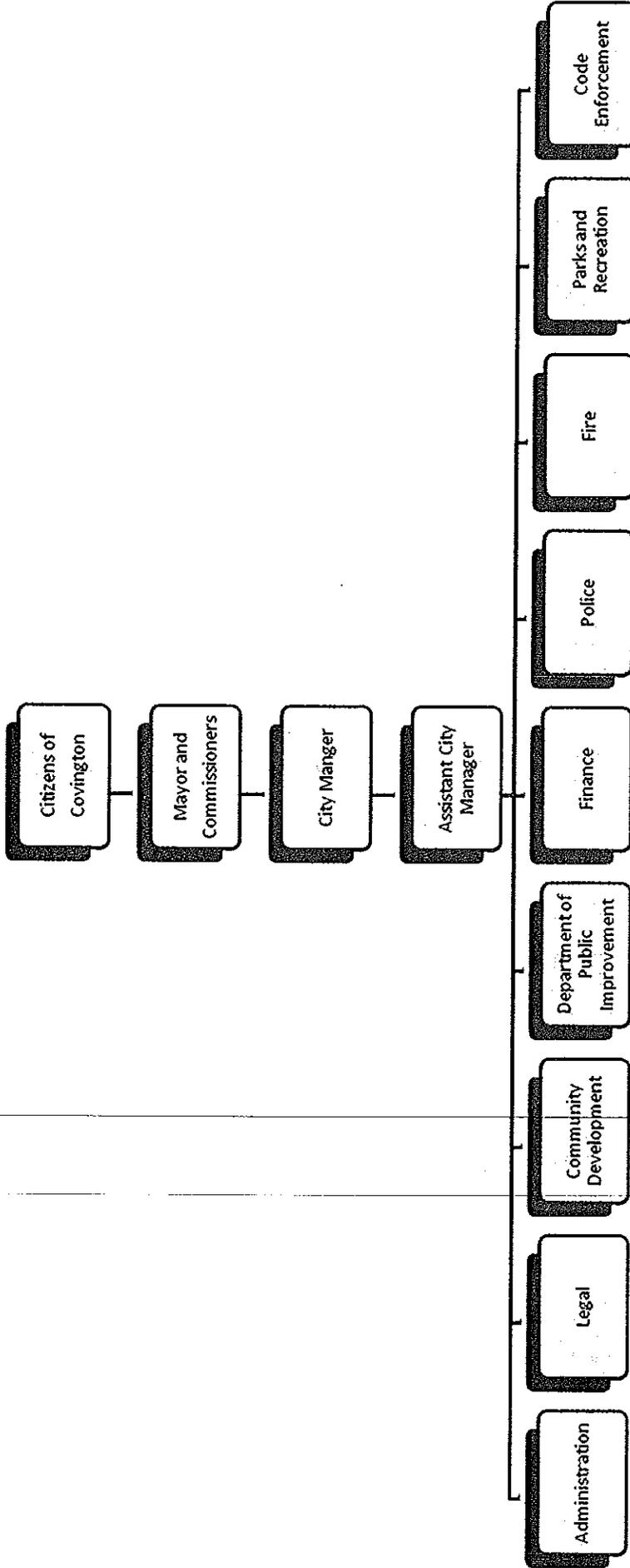
Linda C. Davison

President

Jeffrey R. Emmer

Executive Director

CITY OF COVINGTON, KENTUCKY
ORGANIZATIONAL CHART



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

MAYOR

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

COMMISSIONERS

Sherry Carran
Shawn Masters
Steve Casper
Steve Frank

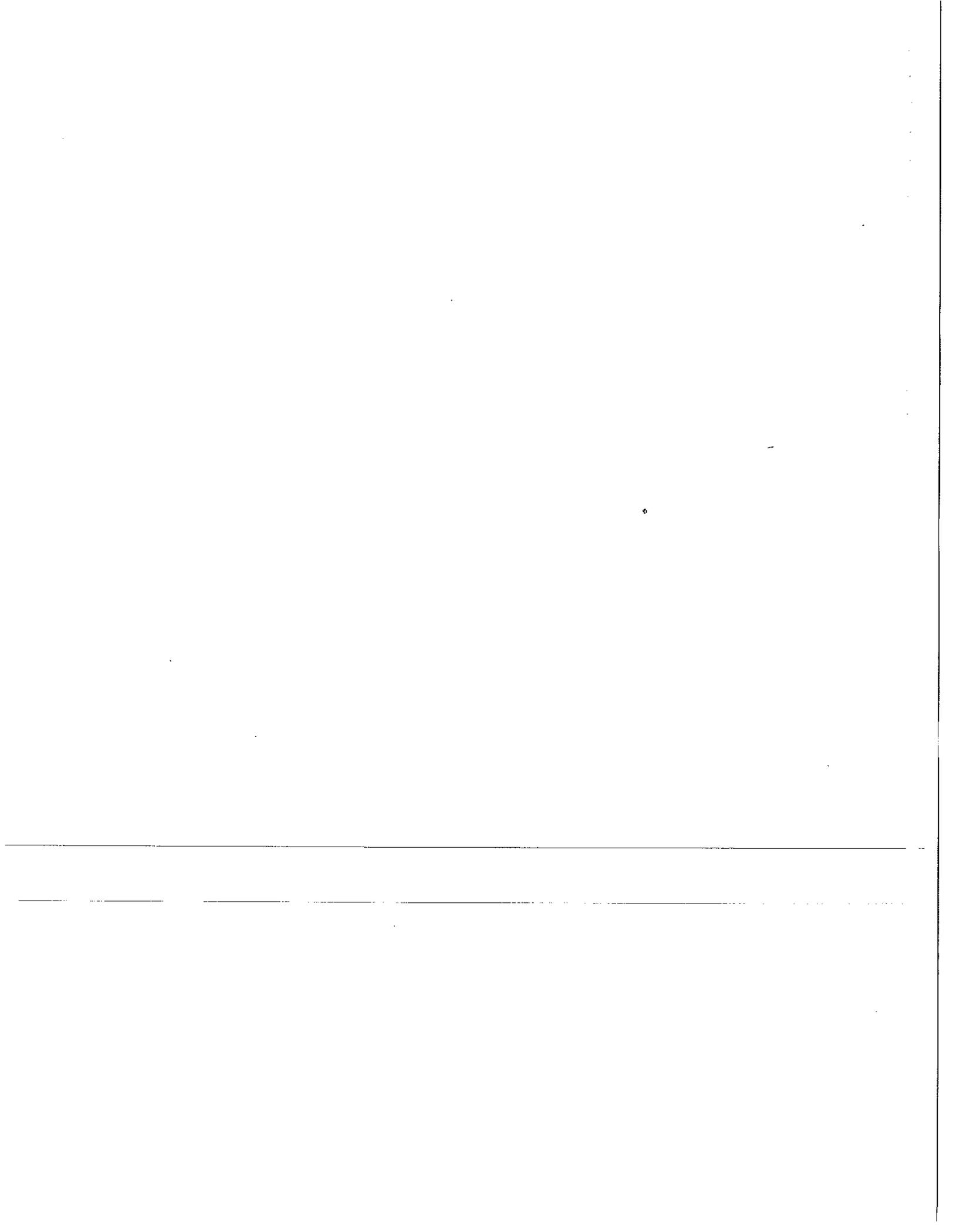
STAFF

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

Director of Code Enforcement – Keith Bales
Recreation Director – Natalie Gardner

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Covington, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Devou Properties, Inc. (a non-profit organization), the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Devou Properties, Inc. is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Devou Properties, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011, on our consideration of the City of Covington, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 23 and budgetary comparison schedules on pages 58 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Kentucky's basic financial statements. The introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
December 13, 2011

CITY OF COVINGTON, KENTUCKY MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) of the City of Covington, Kentucky's (the City's) financial statements provides readers an overview and analysis of the City's financial position and activities for the fiscal year ended June 30, 2011. The information presented here should be read in conjunction with the City's basic financial statements which immediately follow this analysis.

USING THIS ANNUAL REPORT

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

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

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

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

Financial Highlights

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

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

Government-Wide Financial Statements

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

The Statement of Net Assets presents information on all City assets and liabilities as of June 30, 2011. Net assets are the difference between the assets and liabilities. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. In assessing the City's condition, other factors must be considered as well, such as changes in the City's property tax base, occupational license tax base, and the condition of the City's capital assets (roads, buildings, equipment, and sidewalks) to assess the overall health of the City.

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

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

- **Governmental activities:** Most of the City's basic services are reported here, including police, fire, street maintenance, parks and recreation, and general administration services. Payroll occupational license fees, property taxes, and net profit license fees, and insurance premiums license tax, and service charges finance most of these activities.
- **Component Units:** Devou Properties Inc. was formed to maintain and operate the Drees Pavillion at Devou Memorial Overlook for the benefit of Devou Park which is owned by the City. Although a legally separate entity, Devou Properties is included in these financial statements because of its financial accountability to the City.

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

Fund Financial Statements

Fund financial statements report the City's operations in more detail than the government-wide statements. The analysis of the City's major funds begins on page 58. The non-major fund financial statements begin on page 64. Some funds are required to be established by State law or by bond covenants. However, the City Commission may establish many other funds to help control and manage money for particular purposes (i.e., Police Forfeiture Fund, Devou Park Maintenance Fund, Devou Park Master Plan Fund, etc.) or to show that it is meeting legal responsibilities for grant funds (i.e. Community Development Block Grant Fund, Housing Voucher Fund, HOME Program Fund, etc.). The City's reports financial activity under three kinds of funds, governmental and proprietary, and fiduciary.

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

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

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

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

Statement of Net Assets

For the year ended June 30, 2011, net assets changed as follows:

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

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

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

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

Statement of Activities

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

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

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

Operating grants and contributions increased by \$2,805,979. Economic stimulus funds in the form of US Department of Housing and Urban Development Neighborhood Stabilization Program are the reason for the increase. Funds are being used to rehabilitate and develop rental units and single family homes for resale to owner occupants.

Total expenses for the City's governmental activities were \$64.5 million, a 1.1% decrease from the prior year. In response to declining tax revenue, an on-going review of expenditures have resulted in cost savings.

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

Fund Financial Statements

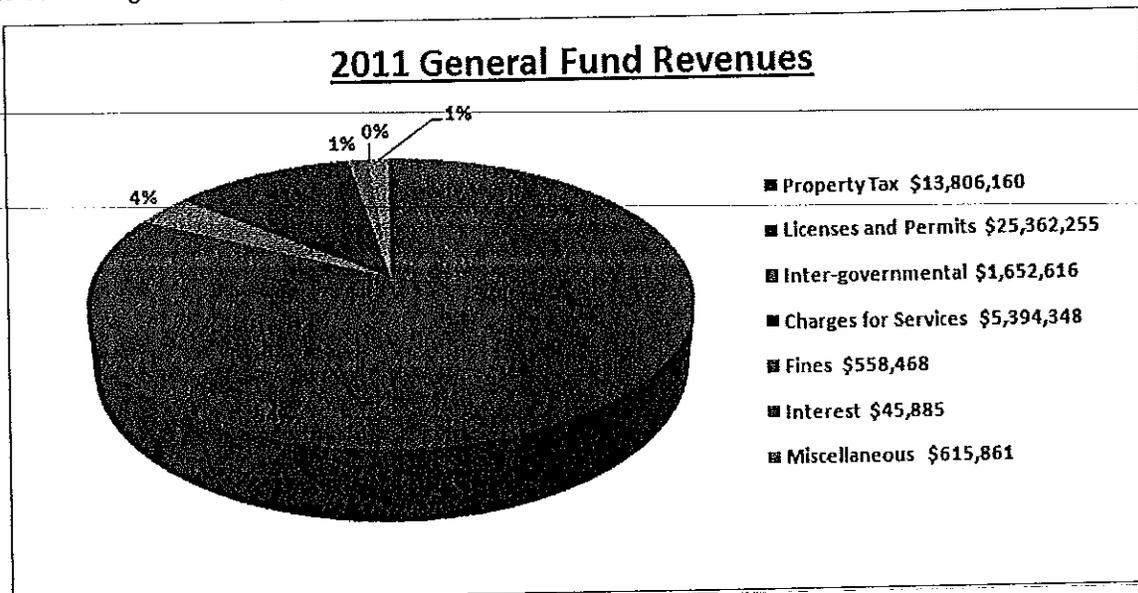
GENERAL FUND

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

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

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

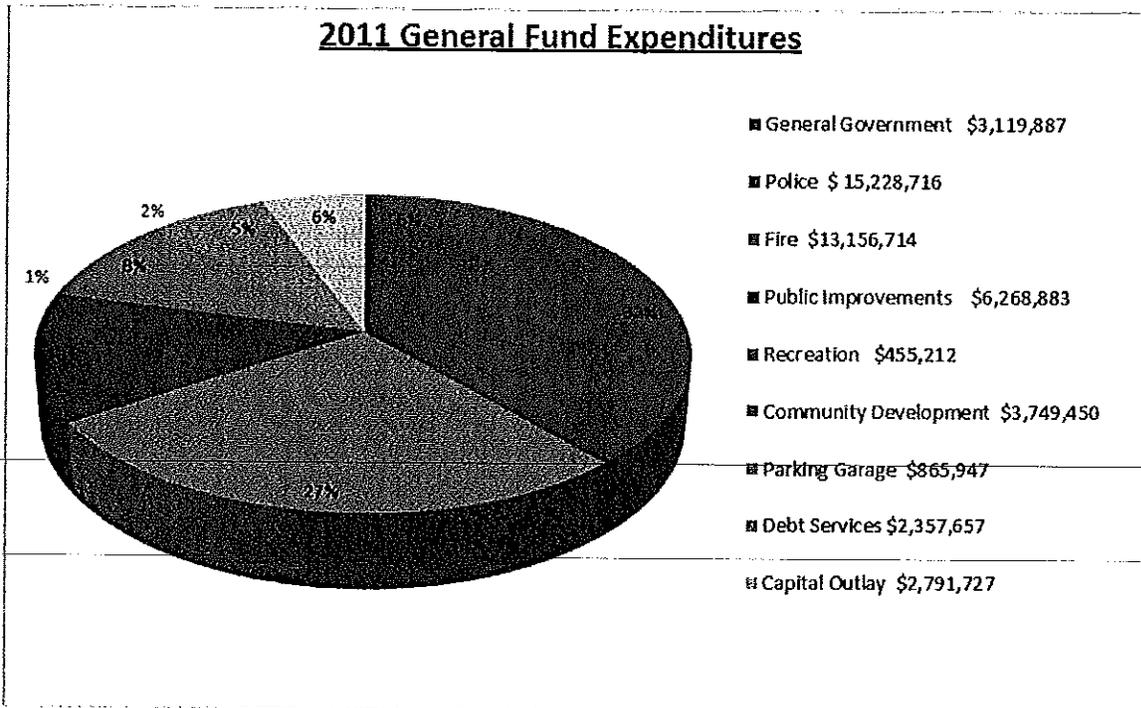
Occupational License revenue includes both a payroll occupational license fee and a net profit occupational license fee on businesses. Licenses and permits decreased \$67,521 or .4% from the prior fiscal year and are expected to remain flat into the next fiscal year. With health care costs and pension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



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

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

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



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

Other Governmental Funds

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

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

General Fund Budgetary Highlights

Over the course of the fiscal year, the City Commission approved revisions of the General Fund budget one time. The total budget was increased \$2,499,929. The General Fund revenue budget was increased by \$1 million dollars. The adjustment authorized the use of prior year fund balance to absorb the net general fund operating loss.

The budget amendment was made to more closely reflect the anticipated actual expense for the year and to formally adopt as part of the budget changes in staff or activities that were approved by the City Commission during the year. It also reflected budget changes required by GASB Statement Number 54.

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

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt Administration

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

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

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

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

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

The Kentucky Constitution states that the total principal amount of City indebtedness, which excludes self-supporting obligations, revenue bonds, special assessment debt, and non-tax supported debt, cannot exceed 10% of the value of taxable property in the City. The debt limit for the City of Covington is \$213 million.

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

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

Capital Assets

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

This year's major capital additions are as follows:

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

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

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

The Engineering Department presented an evaluation of Covington's worst streets and proposed a strategy to address the funding needs. An estimate of \$7.5 million of capital investment would be required to address the worst streets. An investment of this amount would also mean that future capital requirements for ongoing preventive and routine street maintenance could be budgeted at approximately \$2 to \$3 million annually. Budget priority will be given in fiscal year 2011-2012 to address the targeted worst streets although financial conditions will not allow full funding for ongoing preventive and routine maintenance.

Additional information on the City's capital assets can be found on page 43.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

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

The economic outlook is grim for the coming year. Revenue estimates have been reduced. The housing mortgage crisis and credit crunch will continue to dampen growth. With the economic slowdown, job expansion is not expected until after June 30, 2011. The 2012 total property assessment for the City fell \$23.1 million, or 1.1%.

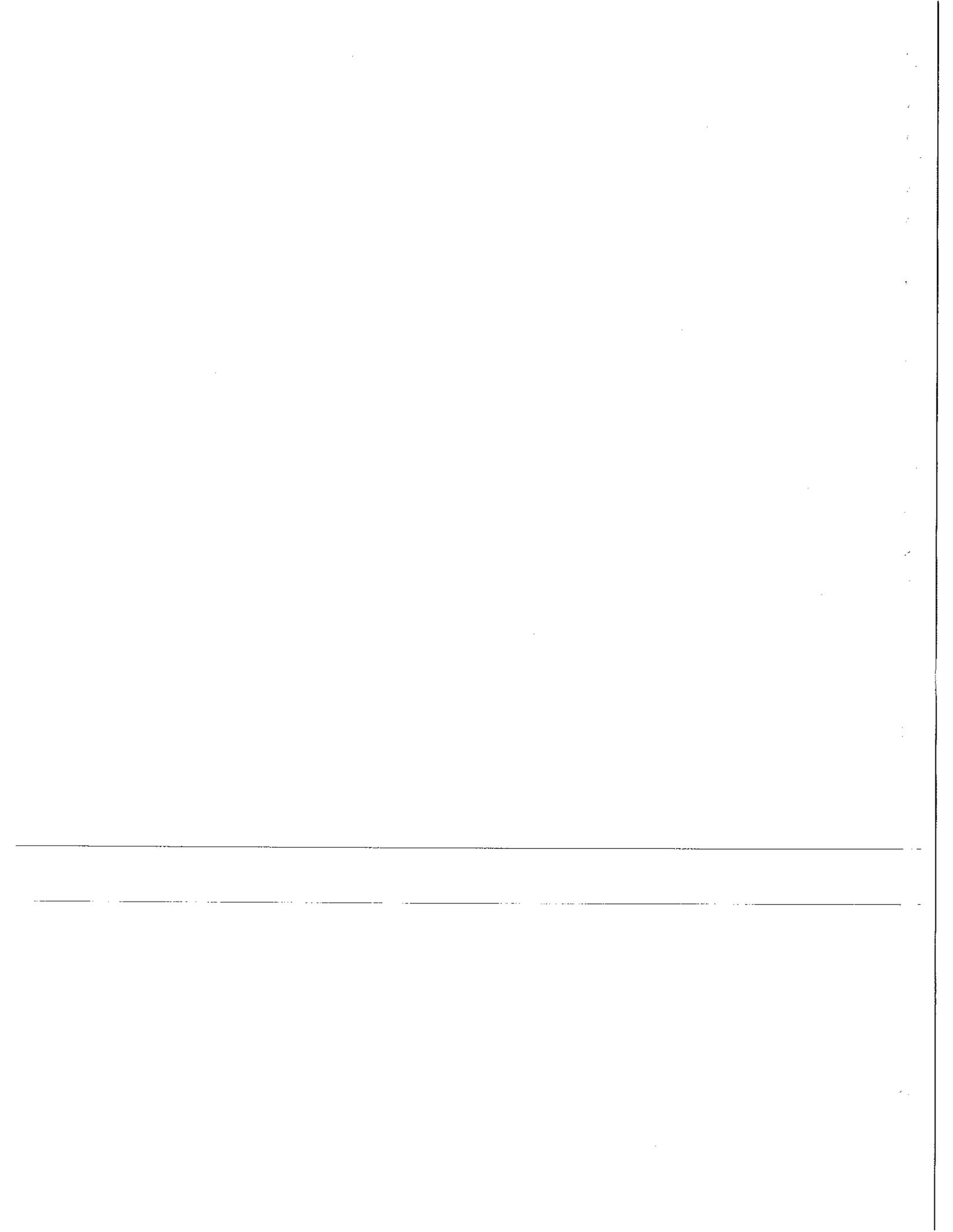
**CITY OF COVINGTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

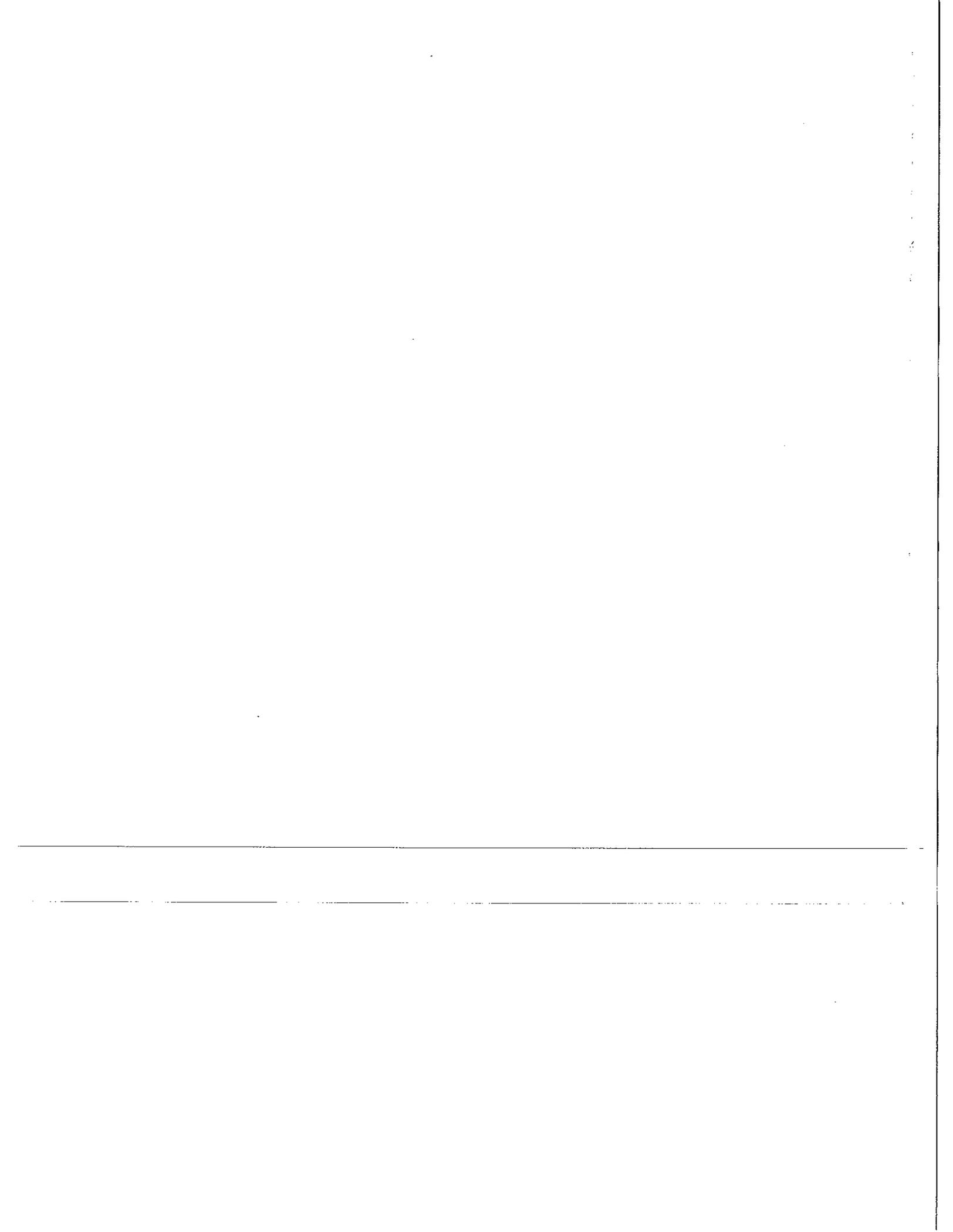
This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert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

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BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS



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

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

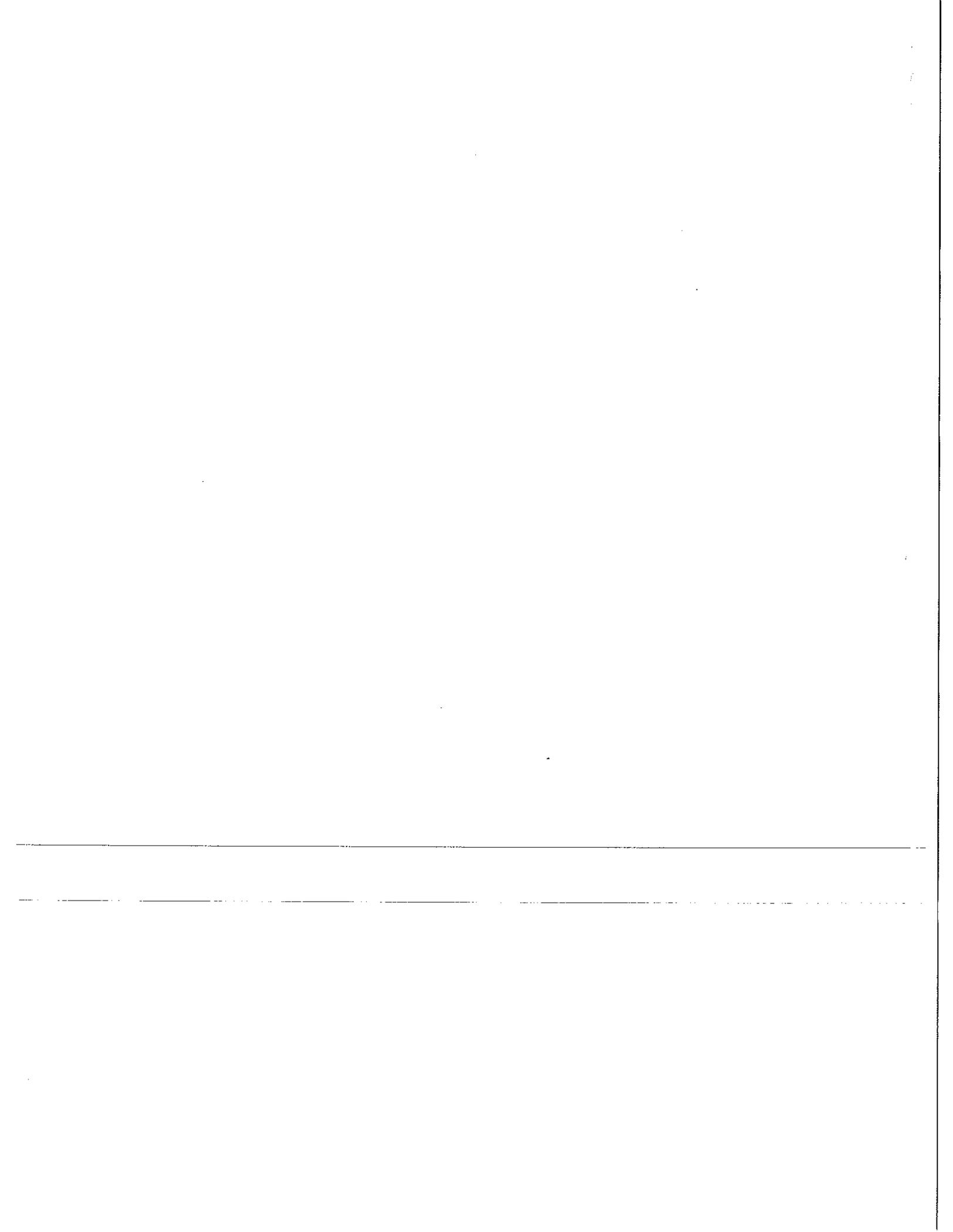
See accompanying notes

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

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit
Primary Government						
Governmental Activities						
General Government	\$ 3,814,055	\$ 968,682	\$ 388,730	\$ 1,762,452	\$ (694,191)	
Police	16,536,402	307,539	940,222	86,501	(15,202,140)	
Fire	15,318,421	1,175,621	-	-	(14,142,800)	
Public Improvements	11,780,808	2,082,635	430,622	709,852	(8,557,699)	
Recreation	734,672	-	-	-	(734,672)	
Community Development	13,771,124	98,196	11,774,377	-	(1,898,551)	
Parking Garage	865,947	1,458,784	-	-	592,837	
Interest on Long-Term Debt	1,676,776	-	-	-	(1,676,776)	
Total Governmental Activities	64,498,205	6,091,457	13,533,951	2,558,805	(42,313,992)	
Total Primary Government	\$ 64,498,205	\$ 6,091,457	\$ 13,533,951	\$ 2,558,805	(42,313,992)	
Component Unit						
Devou Properties, Inc.	\$ 1,098,060	\$ 949,536	\$ -	\$ -	\$ -	\$ (148,524)
General revenues:						
Taxes						
Real Property Taxes, Levied for General Purposes					6,481,511	-
Personal Property Taxes, Levied for General Purposes					516,905	-
Public Service Taxes					2,107,927	-
Taxes, Levied for Bank Deposits					71,391	-
Insurance Premium Taxes					5,155,801	-
Payroll Taxes					22,595,598	-
Net Profits Taxes					2,404,497	-
Other Taxes					840,953	-
Investment Earnings					47,503	4,334
Miscellaneous					1,817,908	-
Total General Revenues					42,039,994	4,334
Change in Net Assets					(273,996)	(144,190)
Net Assets June 30, 2010					48,218,683	1,923,886
Net Assets June 30, 2011					\$ 47,944,685	\$ 1,779,696

See accompanying notes

FUND FINANCIAL STATEMENTS



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

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

See accompanying notes

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

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

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.

Cost of Capital Assets	\$ 176,902,051	
Accumulated Depreciation	<u>(119,146,428)</u>	
		57,755,623

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

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

Cash and Cash Equivalents	38,450	
Accounts Receivable	186,350	
Due From Other Funds	1,167,283	
Accounts Payable	(81,261)	
Estimated Liability for Claims	(837,960)	
Due to Other Funds	<u>(274,721)</u>	
		198,141

Deferred charges represent costs related to the issuance of new bonds and also refunding costs. Deferred charges are reported as an other use of funds in the governmental funds statements. However, on the government wide statement of net assets these costs are capitalized and reported as a deferred charge, and amortized over the life of the related bonds. 305,760

Net pension obligation asset represents contributions made to the City's pension funds in excess of the actuarially required contribution. The excess contributions are capitalized and amortized. 4,614,022

Interest payable on long term debt does not require current financial resources. Therefore accrued interest payable is not reported as a liability in the governmental funds balance sheet. (230,644)

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

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

Bonds Payable	21,289,349	
Capital Lease Obligations Payable	16,247,510	
Compensated Absences Payable	<u>1,590,784</u>	
		<u>(39,127,643)</u>

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

See accompanying notes.

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

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

See accompanying notes

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

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

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

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

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

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the net book value of the asset sold. (3,482)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 2,069,548

Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 3,435,073

The Statement of Activities reports annual pension cost, which includes the actuarially required contribution along with an interest factor and adjustment of the net pension obligation asset. (1,740,327)

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

In the Statement of Activities, compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The additional expense reported in the statement of activities is a result of the change in long-term accumulated sick leave. (154,108)

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

Costs related to the issuance of new bonds and deferred refunding costs are reported as an other use of funds in the governmental funds financial statements. However, on the government-wide statement of net assets, these costs are capitalized and reported as a deferred charge, and subsequently amortized over the life of the related bonds.

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

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

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. (204,418)

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Financial Reporting Entity

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

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

Blended Component Units Included Within the Reporting Entity:

City of Covington Non-Uniformed Employees' Pension Fund

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

City of Covington Police and Firemen's Pension Fund

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

City of Covington Municipal Properties Corporation

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Discretely Presented Component Units Included Within the Reporting Entity**

Devou Properties, Inc. (a non-profit organization) is included in the City's financial statements as a discretely presented component unit. Although a legally separate entity, Devou Properties, Inc. is included in these financial statements because of its financial accountability to the City. Devou Properties, Inc. was formed to maintain and operate the Drees Pavilion at Devou Memorial Overlook for the City of Covington, for the benefit of Devou Park. Devou Properties, Inc. is responsible for renting out the facilities for events, including weddings, receptions and corporate events. Directors of Devou Properties, Inc. are appointed by the City's Board of Commissioners, upon the recommendation of the Mayor. Any excess funds from operations of the facility are to be set aside to be used on Devou Park projects. As a discretely presented component unit, the financial statements of Devou Properties, Inc. are only included on the City's government-wide financial statements in a column that makes it clearly separate from the primary government. Devou Properties, Inc. operates on a calendar year-end basis therefore the financial statements for the year ended December 31, 2010 are included in the City's current financial statements. Audited financial statements of Devou Properties, Inc. are available and may be obtained by contacting the City Manager.

Basis of Presentation Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements; however interfund services provided and used are not eliminated. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The government reports the following proprietary funds:

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

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

The City reports the following major governmental funds:

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

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

Special Revenue Funds

- Police and Fire Incentive Pay – This fund was established to account for entitlements received under the State of Kentucky's Policemen and Firemen's Supplemental Pay Programs.
- Devou Park Maintenance – This fund was established by Commissioners' ordinance in 1973 to account for the maintenance of roadways and streets within Devou Park.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Devou Park Master Plan – This fund is used to account for revenues and expenditures of funds allocated for use in Devou Park, from proceeds of the operation of the Drees Pavilion.
- Federal and State Grant Funds – This fund was established to account for the revenues and expenditures related to grants awarded by federal and state agencies.
- Police Forfeiture – This fund was established to account for the resources provided for by police forfeitures.
- CAD System – This fund was established to account for revenues and expenditures related to the installation of a computer assisted dispatch system, and the subsequent debt service payments for the related capital lease.
- Renaissance Grant Fund – This fund was established to account for revenues and expenses related to renaissance grants received by the City.
- Home Consortium Fund – This fund was established to administer a HOME Program for a consortium of non entitlement cities in Northern Kentucky, including Newport, Bellevue, Dayton, Ludlow and Bromley. HOME funds are used to provide assistance to persons to purchase a home, owner-occupied rehab programs, and housing development activities with Community Housing Development organizations.
- Homeless Prevention Fund – This fund is used to administer U.S. Department of Housing and Urban Development funds to be used for foreclosure remediation.
- Neighborhood Stabilization Program – This fund was established to administer a U.S. Department of Housing and Urban Development grant to develop low income rental units and owner occupied homes purchased out of foreclosure.

Debt Service Funds

- 2004 Pension Obligation Bonds – The proceeds of this issue were used to fund the Employees' Retirement Fund and the Police and Fire Retirement Fund
- 2005 Refunding Bonds – The proceeds of this issue were used to refund the 1995 First Mortgage Bonds.

Assets, Liabilities and Net Assets or Equity:Cash and Cash Equivalents

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

The City is authorized by state statute to invest in:

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

Investments

In accordance with Government Accounting Standards Board requirements, investments held at June 30, 2011 are recorded at fair value based on quoted market prices.

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

Property Tax Receivable

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Notes Receivable

Notes receivable are carried at their unpaid principal balance.

Short-Term Interfund Receivables/Payables

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011 are recorded as prepaid items in both the government wide and fund statements. The consumption method is used in the fund statements.

Capital Assets

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

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

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

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

Compensated Absences

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Long-Term Obligations

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

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

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

Unearned/Deferred Revenue

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

Fund Equity

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

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

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

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

Revenues, Expenditures and Expenses:

Operating Revenues and Expenses

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures/Expenses

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

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

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

Interfund Transactions

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

Use of Estimates

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

Budgetary Information

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess of Expenditures over Appropriations

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

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

Fund Balance Deficit

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

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

NOTE 3 – DEPOSITS

Cash and Cash Equivalents

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

As of June 30, 2011, \$250,000 of the City's deposits are insured by the FDIC, and \$5,754,169 of the City's deposits are collateralized with securities held by the pledging institution's trust department but not in the City's name. As of June 30, 2011, the City did not have any deposits in excess of insured and/or collateralized amounts.

As of December 31, 2010, Devou Properties, Inc. (a component unit of the City) had \$1,588,879 in cash in excess of insured limits.

Investments

Investments are made by the City as an agent for the City Employee's Retirement Fund and the Police and Firemen's Pension Fund. The City maintains investment accounts with brokerage institutions which hold the investments registered in the City's name. As of June 30, 2011, all of the City's investments were covered by SIPC coverage or Excess SIPC coverage provided by the institution, and are therefore not subject to custodial credit risk.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its cash, investments or collateral securities that are in the possession of an outside party. The City has no formal policy on custodial credit risk. As of June 30, 2011, the City had \$5,754,169 of deposits collateralized with securities held by the pledging institution's trust department but not in the City's name.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

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

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

*Depreciation was charged to functions as follows:

Governmental Activities	
Administration	\$ 147,820
Police	277,516
Fire	419,587
General Services	4,808,339
Parks and Recreation	260,313
Total Governmental Activities Depreciation Expense	\$ 5,913,575

NOTE 5 - INTERFUND ACTIVITY

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

Much of the City's revenue is received in the general fund, then transferred to various other funds in order to fund immediate expenditures. Interfund receivables/payables were as follows at June 30, 2011:

Due From/To Other Funds:

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

NOTE 5 - INTERFUND ACTIVITY (Continued)

Interfund Transfers:

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

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

NOTE 6 - SHORT TERM DEBT

On July 1, 2010 the City issued a Tax and Revenue Anticipation Note in the amount of \$3,500,000 for the purpose of providing working capital in advance of tax and revenue cash flows. This note carried a fixed interest rate of 1.24% and matured on June 30, 2011 at which time it was repaid out of the general fund.

During the year, the City obtained a line of credit to facilitate real estate development. The total amount of credit available is \$500,000 and the debt charges interest at 5.0%. This line of credit matures August 1, 2011 and had an outstanding balance at June 30, 2011 of \$187,424. Subsequent to year end, this line of credit was renewed for an additional one year period at an interest rate of 5.50%.

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

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

NOTE 7 - GENERAL LONG-TERM DEBT

Capital Lease Obligations

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

The following capital lease obligations payable are payable from governmental fund revenues. The City has entered into various lease agreements as lessee for financing the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of the capital assets acquired through capital leases as of June 30, 2011.

	<u>Capital Assets</u>
Buildings	\$ 8,664,929
Building Improvements	534,589
Equipment	597,819
Land	6,952,070
Infrastructure	989,002
Vehicles	<u>2,208,054</u>
Total Cost	19,946,463
Accumulated Depreciation	<u>3,655,096</u>
Net Book Value	<u>\$ 16,291,367</u>

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2011.

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

The City is the lessor of office space located in the City building. These leases are on a year to year basis with cancelable terms. The City's investment in property on operating leases and property held for lease as of June 30, 2011 is as follows:

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

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

Mortgage Bonds and Notes Payable

The following schedule summarizes outstanding long-term mortgage bonds and notes payable at June 30, 2011.

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

Interest on the variable rate 2004 Series Pension Obligation Bonds is paid at the rate of interest determined by the Remarketing Agent, determined on a weekly basis. The rate was 0.192% June 30, 2011.

The bonds may be called prior to maturity at rates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the City at June 30, 2011 are as follows:

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

Interest Rate Swap

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

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

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

Fair Value. The swap had a fair value of \$(1,278,603) as of June 30, 2011. The swap's fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase or decrease.

Credit Risk. As of June 30, 2011, the City was exposed to credit risk in the amount of the swap's fair value. The swap counterparty was rated AA by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2011.

Swap Payments and Associated Debt. For the year ended June 30, 2011, the City did not receive any payments from the agreement. Using rates as of June 30, 2011, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary

Fiscal Years Ending June 30,	Variable-Rate Bonds		Swap, Net	Total
	Principal	Interest		
2012	\$ 405,000	\$ 21,537	\$ 533,073	\$ 959,610
2013	425,000	22,596	513,090	960,686
2014	445,000	21,760	494,090	960,850
2015	470,000	20,880	474,108	964,988
2016	490,000	19,956	453,144	963,100
2017 - 2021	2,855,000	84,254	1,913,140	4,852,394
2022 - 2026	3,640,000	53,146	1,206,782	4,899,928
2027 - 2031	<u>3,635,000</u>	<u>14,402</u>	<u>327,028</u>	<u>3,976,430</u>
Totals	\$ <u>12,365,000</u>	\$ <u>258,531</u>	\$ <u>5,914,455</u>	\$ <u>18,537,986</u>

Conduit Debt Obligations

The City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, State, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2011, there were four series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$61.2 million.

NOTE 7 - GENERAL LONG-TERM DEBT (Continued)

Changes in Noncurrent Liabilities

During the year ended June 30, 2011, the following changes occurred in noncurrent liabilities:

Debt Issue	Balance July 1, 2010	Additions of New Debt	Repayments and Defeased	Balance June 30, 2011	Amounts Expected to be Paid in One Year
Mortgage Bonds and Notes					
2003 Refunding	\$ 3,115,000	\$ -	\$ 340,000	\$ 2,775,000	\$ 348,000
HUD 108	397,000	-	67,000	330,000	67,000
KY Infrastructure Auth.	113,031	-	30,500	82,531	31,908
2005 Refunding Bonds	3,395,000	-	1,095,000	2,300,000	1,130,000
2004 Series A	12,750,000	-	385,000	12,365,000	405,000
KIA Rainwater Harvest	1,040,563	156,827	635,572	561,818	23,818
KY Bond Corp 2010 Series A	-	315,000	90,000	225,000	60,000
Recovery Zone Bonds	-	2,650,000	-	2,650,000	-
Total Mortgage Bonds and Notes	<u>20,810,594</u>	<u>3,121,827</u>	<u>2,643,072</u>	<u>21,289,349</u>	<u>2,065,726</u>
Capital Lease Obligations Infrastructure/Equipment	<u>17,663,351</u>	<u>-</u>	<u>1,415,841</u>	<u>16,247,510</u>	<u>1,161,476</u>
Compensated Absences	<u>1,436,676</u>	<u>1,316,232</u>	<u>1,162,124</u>	<u>1,590,784</u>	<u>1,590,784</u>
Total Noncurrent Liabilities	<u>\$ 39,910,621</u>	<u>\$ 4,438,059</u>	<u>\$ 5,221,037</u>	<u>\$ 39,127,643</u>	<u>\$ 4,817,986</u>

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

NOTE 8 – RISK MANAGEMENT

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

All funds of the City participate in the program and make payments to the Liability Self Insurance Fund, however the payments are not based on actuarial estimates of the amounts needed to pay prior and current-year claims but are intended to establish a reserve for catastrophic losses. That reserve was \$186,055 at June 30, 2011 and is a designation of the Liability Self Insurance Fund retained earnings. The claims liability reported in the Fund at June 30, 2011, is based on the requirements of governmental accounting standards, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount were:

<u>July 1, 2009</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2010</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2011</u>
\$ -	\$ 917,918	\$ 97,095	\$ 820,823	\$ 269,930	\$ 1,090,753	\$ -

The City has also established a Medical Self Insurance Fund. Employees may elect to participate in this program or certain other medical insurance programs offered by the City. Under this program the first \$125,000 of a participants medical claims are payable by the medical self insurance fund. The City purchases insurance for claims in excess of coverage provided by the fund. All funds of the City participate in the program and make payments to the medical self insurance fund based on historical estimates of the amounts needed to pay prior and current year claims. The claims liability of \$837,960 reported in the fund at June 30, 2011, is based upon the requirements of governmental accounting standards, as explained above. Changes in the fund's claims liability amount during the year ended June 30, 2011 were as follows:

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

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

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

NOTE 9 – EMPLOYEE RETIREMENT PLAN

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

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Summary of Significant Accounting Policies

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

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

Plan Descriptions and Contribution Information

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

<u>Group</u>	<u>Employees' July 1, 2011</u>	<u>Police and Firemen's July 1, 2011</u>
Retirees and Beneficiaries Currently Receiving Benefits	50	82
Active Employees – Fully Vested	<u>2</u>	<u>-</u>
	<u>52</u>	<u>82</u>

Employees' Pension Plan

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

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

Police and Firemen's Pension Plan

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

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

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Employer Contributions

Years Ended June 30,	Employees' Pension Plan			Police & Firemen's Pension Plan		
	Annual Required Contribution	Contributions Made	Percentage Contributed	Annual Required Contribution	Contributions Made	Percentage Contributed
2011	\$ 304,163	\$ -	- %	\$ 342,169	\$ -	- %
2010	304,163	-	-	396,747	-	-
2009	-	-	-	-	-	-

During the year ended June 30, 2005, the City issued Pension Obligation Bonds for the purpose of funding both Pension Plans. As a result, the City has a net pension obligation asset on the government-wide statement of net assets. As of June 30, 2011, the Plan liabilities in both the Police & Firemen's Pension Plan and the Employees' Pension Plan exceeded the assets. Therefore, the City did have an unfunded accrued liability in the Police & Firemen's Pension Plan or the Employees' Pension Plan. The City is required by state statute to contribute impounding lot income and required contributions into the Police & Firemen's Pension Plan each year.

Funded Status and Funding Progress

Actuarial Valuation Date July 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
<u>Employees' Pension Plan</u>						
2011	\$ 4,002,169	\$ 5,363,292	\$ 1,361,123	75 %	\$ 105,615	1289 %
2009	3,867,919	5,955,714	2,087,795	65	105,381	1981
2007	6,650,730	6,605,645	(45,085)	101	114,311	N/A
<u>Police & Firemen's Pension Plan</u>						
2011	\$ 9,573,902	\$ 11,003,692	\$ 1,429,790	87 %	\$ N/A	N/A %
2010	9,116,577	11,465,252	2,348,675	80	N/A	N/A
2009	9,248,821	11,972,124	2,723,303	77	N/A	N/A

An actuarial valuation report was not prepared as of July 1, 2008 or July 1, 2010 for the Employees' Pension Plan.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Annual Pension Cost and Net Pension Obligation

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

	<u>Employees' Pension Plan</u>	<u>Police & Firemen's Pension Plan</u>
Annual Required Contribution (ARC)	\$ 304,163	\$ 342,169
Interest on Net Pension Obligation	(145,495)	(331,081)
Adjustment to ARC	<u>479,483</u>	<u>1,091,088</u>
Annual Pension Cost	638,151	1,102,176
Actual Contributions Made	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Pension Obligation	638,151	1,102,176
Net Pension Obligation (Asset) – Beginning of Year	<u>(1,939,935)</u>	<u>(4,414,414)</u>
Net Pension Obligation (Asset) – End of Year	<u>\$(1,301,784)</u>	<u>\$(3,312,238)</u>

Three-Year Trend Information

<u>Years Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Change In Net Pension Obligation</u>	<u>Balance of Net Pension Obligation (Asset)</u>
<u>Employees' Pension Plan</u>				
06/30/11	\$ 638,151	- %	\$ 638,151	\$(1,301,784)
06/30/10	663,563	-	663,562	(1,939,935)
06/30/09	334,325	-	334,325	(2,603,497)
<u>Police & Firemen's Pension Plan</u>				
06/30/11	\$ 1,102,176	- %	\$ 1,102,176	\$(3,312,238)
06/30/10	1,167,270	-	1,167,270	(4,414,414)
06/30/09	716,765	-	716,765	(5,581,684)

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

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

	<u>Employees' Pension Plan</u>	<u>Police & Firemen's Pension Plan</u>
Valuation Date	July 1, 2011	July 1, 2011
Actuarial Cost Method	Entry Age	Unit Credit
Amortization Method	Level Percent	Level Percent
	Closed	Closed
Remaining Amortization Period	10 Years	10 Years
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Investment Rate of Return *	7.5 %	7.5 %
Projected Salary Increases*	6 %	N/A
* Includes Inflation at	- %	- %
Cost-of-Living Adjustments	- %	- %

County Employees Retirement System (CERS)

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

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

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

Non-Hazardous Contributions – For the year ended June 30, 2011, plan members were required to contribute 5% (for members before September 1, 2008) and 6% (for members on or after September 1, 2008) of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

Hazardous Contributions – For the year ended June 30, 2011, plan members were required to contribute 8% (for members before September 1, 2008) and 9% (for members on or after September 1, 2008) of their annual creditable compensation. The City was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2011, participating employers contributed 33.25% of each employee's creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

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

<u>Years</u>	<u>Required Contribution</u>	<u>Actual Percentage Contributed</u>
2011	\$ 6,039,577	100 %
2010	5,788,087	100
2009	5,261,517	100

Deferred Compensation Plan

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

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

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

NOTE 10 – CONTINGENCIES

The City is a defendant in a lawsuit. The suit was filed by an individual for development rights and damages. The suit does not specify damages however; the City's counsel has advised that the case has potential for a large judgment, up to \$300,000. The City's counsel has advised that at this stage in the proceeding he cannot offer an opinion as to the probable outcome. The City believes the action is without merit and intends to vigorously defend its position.

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

The City is a party to a potential action to be filed by the firefighters union regarding calculation of overtime pay. The union is seeking to have its members compensated for overtime calculation over and above what was outlined in the collective bargaining agreement for the past several years. The parties have been in discussions regarding this matter, and a hearing is pending. The City's counsel has advised that at this stage in the proceeding he cannot offer an opinion as to the probable outcome, although an adverse outcome could potentially result in a multi-million dollar judgment against the City.

The City is a defendant in a lawsuit. The suit was filed by a company for alleged discrimination related to denial of a zoning permit. The suit does not specify damages, however, the City's counsel has advised that the case has potential for a large judgment, up to \$250,000. The City's counsel has advised that at this stage in the proceeding he cannot offer an opinion as to the probable outcome. The City believes the action is without merit and intends to vigorously defend its position.

The City is a defendant in a lawsuit. The suit was filed by a company for wrongful death. The suit does not specify damages, however, the City's counsel has advised that the case has potential for a large judgment, up to \$100,000. The City's counsel has advised that at this stage in the proceeding he cannot offer an opinion as to the probable outcome. The City believes the action is without merit and intends to vigorously defend its position.

NOTE 10 – CONTINGENCIES (Continued)

The City is a defendant in a lawsuit filed for inverse condemnation action. The suit does not specify damages however, the City's counsel has advised that the case has a potential for a large judgment, up to \$300,000. The City's counsel has advised that, at this stage in the proceeding, he cannot offer an opinion as to the probable outcome. The City believes the action is without merit and intends to vigorously defend its position.

The City is a party to an action filed by the unions seeking an injunction to prevent the City from making budgetary cuts. The City's counsel has advised that, at this stage in the proceeding, he cannot offer an opinion as to the probable outcome, although an adverse outcome could potentially result in additional costs of \$300,000 – \$500,000, annually. The City believes the action is without merit and intends to vigorously defend its position.

The City is a party to a grievance filed by the FOP alleging overtime contract violations. The action will be arbitrated. The City's counsel has advised that, at this stage in the proceeding, he cannot offer an opinion as to the probable outcome, although an adverse outcome could potentially result in a large judgment, up to \$120,000. The City believes the action is without merit and intends to vigorously defend its position.

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

NOTE 11 – FUND BALANCE RESTATEMENT

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

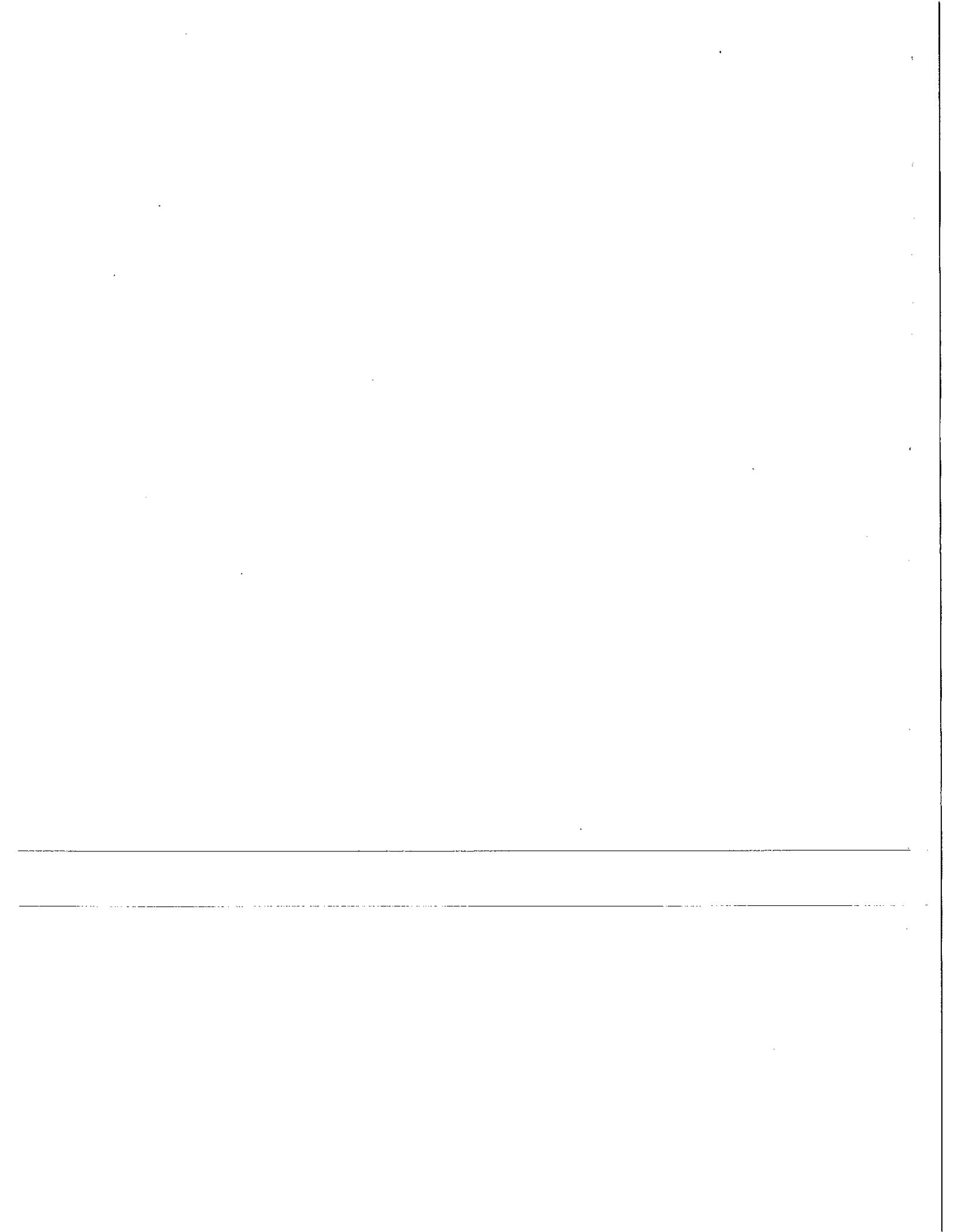
	<u>July 1, 2010</u> <u>Fund Balance</u>
General Fund – As Originally Reported	\$ 342,498
Funds Combined into General Fund:	
Newport Steel UDAG	296,484
Investor Program	488,706
City Hall Operations	42,926
Arts District	-
501 Main Street Operations	-
Working Capital Reserve	1,770,264
Property Acquisitions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

NOTE 12 – SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

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



CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2011

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

(Continued)

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2011
(Continued)

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

(Continued)

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2011
(Continued)

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

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
COMMUNITY DEVELOPMENT BLOCK GRANT
Year Ended June 30, 2011

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

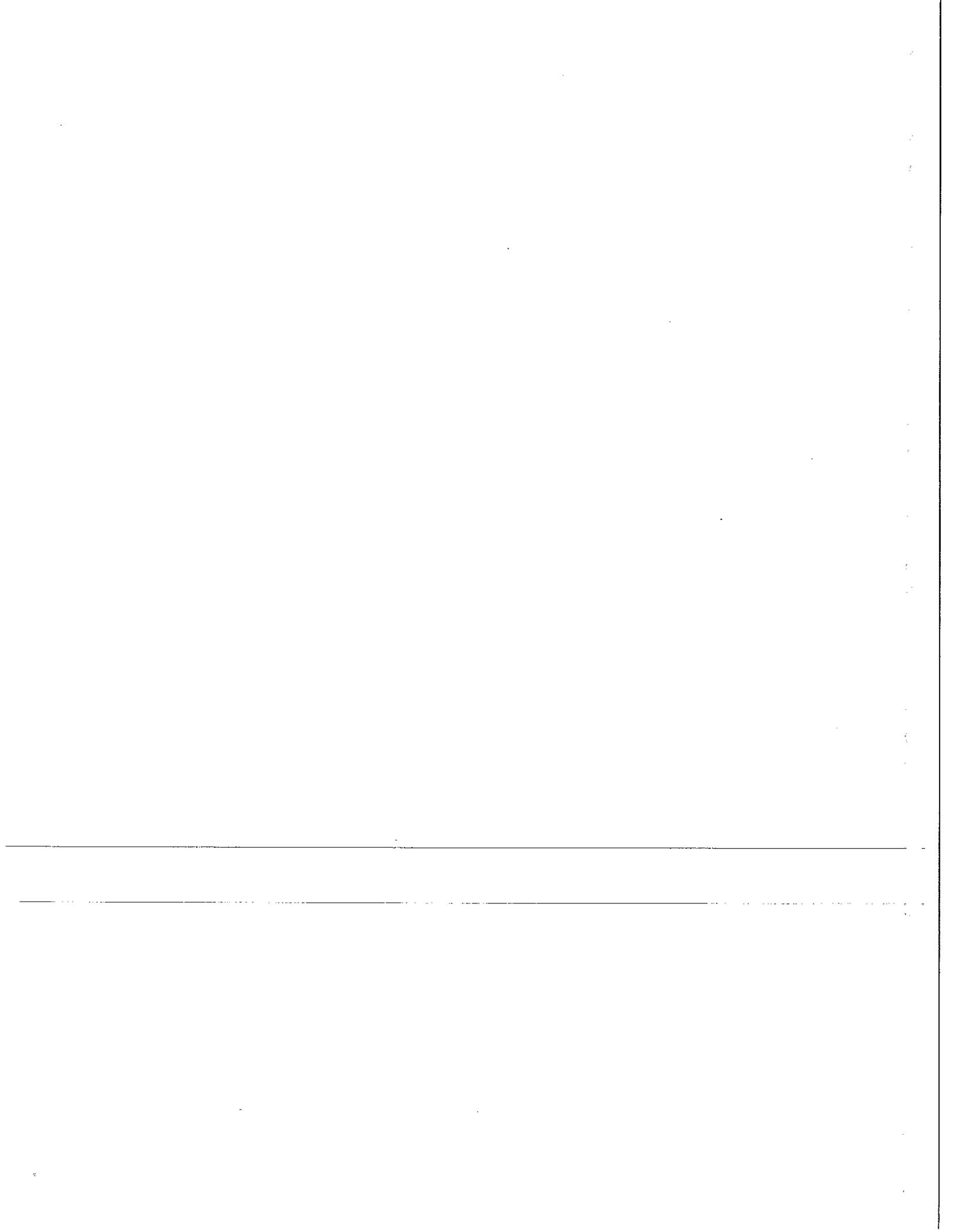
CITY OF COVINGTON, KENTUCKY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (WITH VARIANCES)
 HOME PROGRAM
 Year Ended June 30, 2011

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

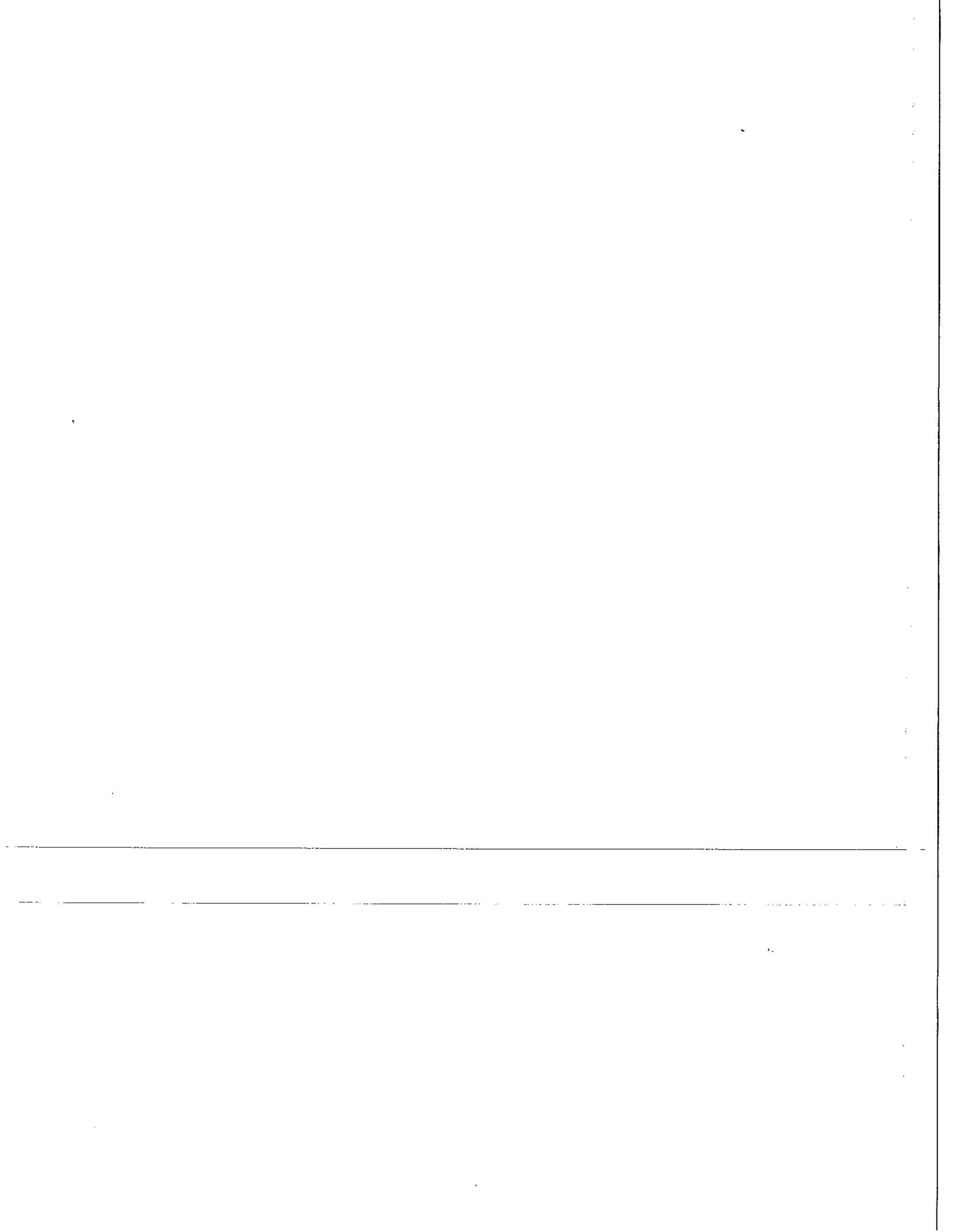
CITY OF COVINGTON, KENTUCKY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (WITH VARIANCES)
 HOUSING VOUCHER PROGRAM
 Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 6,086,652	\$ 6,599,573	\$ 6,722,004	\$ 122,431
Investment Earnings	30,000	30,000	695	(29,305)
Miscellaneous	-	-	9,896	9,896
	<u>6,116,652</u>	<u>6,629,573</u>	<u>6,732,595</u>	<u>103,022</u>
Expenditures				
Community Development	<u>6,117,547</u>	<u>6,609,573</u>	<u>6,411,229</u>	<u>198,344</u>
Excess (Deficit) of Revenues Over Expenditures	(895)	20,000	321,366	301,366
Fund Balance July 1, 2010	<u>-</u>	<u>-</u>	<u>868,019</u>	<u>868,019</u>
Fund Balance June 30, 2011	<u><u>\$ (895)</u></u>	<u><u>\$ 20,000</u></u>	<u><u>\$ 1,189,385</u></u>	<u><u>\$ 1,169,385</u></u>

OTHER SUPPLEMENTARY INFORMATION



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



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

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

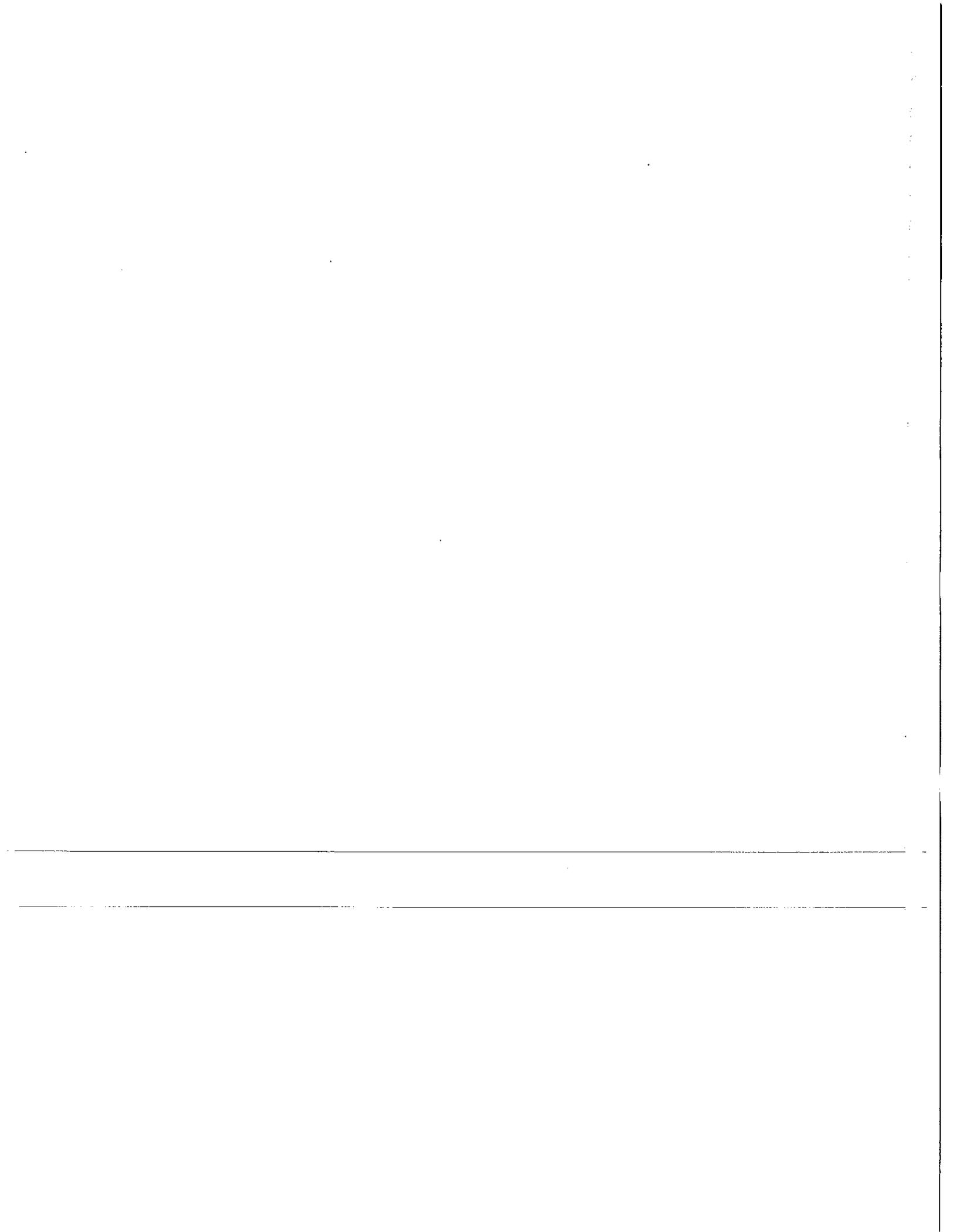
CITY OF COVINGTON, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2011

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

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

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

**INDIVIDUAL FUND SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS**



CITY OF COVINGTON, KENTUCKY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (WITH VARIANCES)
 POLICE AND FIRE INCENTIVE
 Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (WITH VARIANCES)
 DEVOU PARK MAINTENANCE
 Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
DEVOU PARK MASTER PLAN
Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (WITH VARIANCES)
 FEDERAL AND STATE GRANT FUND
 Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
POLICE FORFEITURE
Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (WITH VARIANCES)
 CAD SYSTEM
 Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (WITH VARIANCES)
 RENAISSANCE GRANT FUND
 Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
HOME CONSORTIUM FUND
Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
HOMELESS PREVENTION FUND
Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (WITH VARIANCES)
 NEIGHBORHOOD STABILIZATION PROGRAM
 Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
2004 PENSION OBLIGATION BONDS
Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (WITH VARIANCES)
 2005 REFUNDING BONDS
 Year Ended June 30, 2011

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

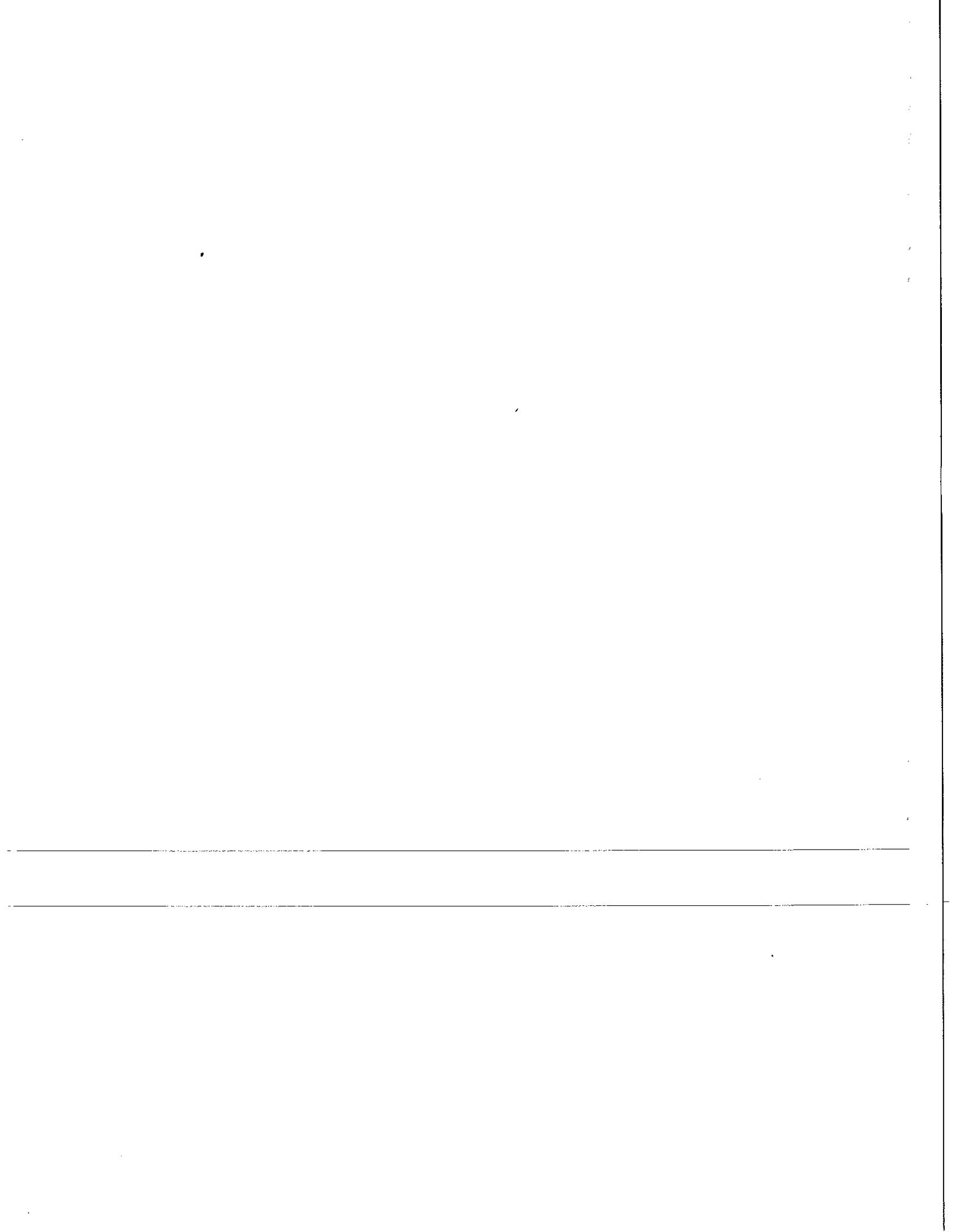
COMBINING FINANCIAL STATEMENTS
PROPRIETARY FUNDS

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

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

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

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



CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (WITH VARIANCES)
LIABILITY INSURANCE
Year Ended June 30, 2011

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

CITY OF COVINGTON, KENTUCKY
 SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 BUDGET AND ACTUAL (WITH VARIANCES)
 MEDICAL AND DENTAL INSURANCE
 Year Ended June 30, 2011

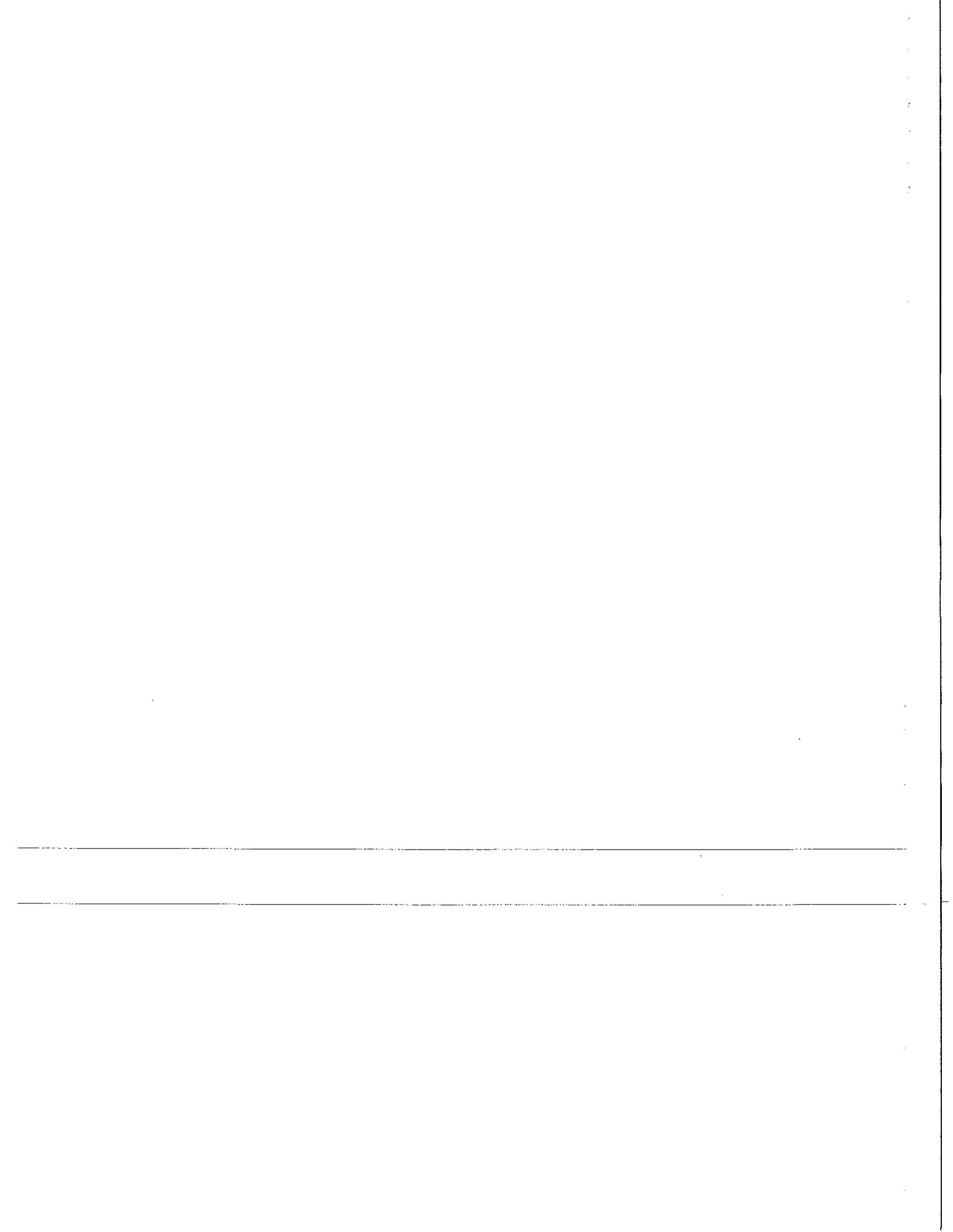
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Insurance Premium Payments	\$ 5,944,630	\$ 6,254,857	\$ 6,686,432	\$ 431,575
Other Operating Revenues	<u>150,000</u>	<u>150,000</u>	<u>274,203</u>	<u>124,203</u>
Total Operating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

STATISTICAL SECTION (1)

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

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

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



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

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

Contents

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

Data Source:

Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial report for the applicable year. The City implemented GASB Statement No, 34 in fiscal year 2003 therefore tables presenting government-wide financial data include only nine years of information.

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

	Fiscal Year								
	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental Activities / Primary Government									
Invested in Capital Assets, net of Related Debt	36,088,303	34,539,885	36,577,167	41,334,965	39,709,313	40,851,867	41,483,876	4,519,630	(2,888,790)
Restricted for Capital Projects	1,577,223								
Restricted for HUD Programs	1,318,568								
Restricted for Police Incentive Pay	3,321								
Restricted for Grant Programs	24,040								
Restricted		91,138	193,693	550,662	888,123	1,307,719	1,593,846	1,943,252	1,943,882
Unrestricted	8,933,230	13,587,660	16,638,487	16,603,105	17,286,863	15,104,828	1,947,609	15,614,883	22,540,375
Total Governmental Activities Net Assets	47,944,685	48,218,663	53,409,347	58,488,752	57,884,299	57,264,414	45,025,331	22,077,765	21,595,467

Note: The city implemented GASB Statement 34 in fiscal year 2003 and GASB Statement 54 in fiscal year 2011.

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

	Fiscal Year								
	2011	2010	2009	2008	2007	2006	2005	2004	2003
Expenses									
Governmental Activities:									
General Government									
Police	3,814,055	6,089,518	12,149,528	7,807,872	6,975,709	7,781,587	9,381,965	3,939,011	4,822,043
Fire	16,536,402	16,498,516	15,593,684	15,501,195	14,873,868	14,482,761	13,660,495	13,582,260	12,712,976
Public Improvements	15,318,421	15,048,966	14,224,985	14,753,208	13,595,531	12,512,512	11,930,245	11,286,851	10,328,208
Recreation	11,780,808	11,847,116	7,185,210	5,995,347	6,001,968	5,324,831	5,561,622	8,020,228	7,440,215
Community Development	734,672	796,215	2,740,960	2,426,639	2,350,546	2,325,250	2,575,568	1,045,289	787,164
Parking Garage	13,771,124	12,484,045	10,217,357	9,777,154	9,345,867	9,817,626	9,086,241	9,825,619	10,876,935
Interest on Long-term Debt	865,947	732,362	701,986	747,677	734,401	727,419	803,715	809,425	743,982
Total Governmental Activities Expenses	1,876,776	1,716,153	2,052,549	1,935,242	1,872,816	1,919,888	1,437,434	1,171,229	1,605,271
Total	64,498,205	65,212,891	64,866,259	58,944,334	55,750,706	54,891,874	54,437,285	49,679,912	49,316,794
Program Revenues									
Governmental Activities:									
General Government									
Police	968,682	1,136,249	993,267	1,145,333	1,096,558	1,215,111	761,041	1,928,888	1,737,441
Fire	307,539	412,722	406,557	382,318	331,579	372,192	-	344,287	516,097
Public Improvements	1,175,621	1,282,105	1,077,448	1,084,825	1,073,548	912,526	987,802	546,276	510,848
Recreation	2,082,635	1,918,838	1,859,171	1,464,056	1,170,789	1,226,952	1,092,970	1,154,023	1,373,968
Community Development	98,196	79,317	37,833	41,860	114,177	56,017	-	90,465	39,525
Parking Garage	1,458,784	1,179,276	1,143,276	1,120,916	1,041,332	1,059,369	1,252,755	-	1,312,485
Interest on Long-term Debt	-	-	-	-	-	-	-	-	-
Operating Grants and Contributions	13,533,951	10,727,972	9,664,170	10,823,567	8,840,224	9,652,316	8,754,883	9,218,291	9,114,414
Capital Grants and Contributions	2,558,805	1,624,312	1,650,920	2,050,654	1,279,884	716,322	3,106,704	902,562	799,478
Total Governmental Activities Expenses	22,184,213	18,360,791	16,832,642	18,113,529	14,948,091	15,210,805	15,956,155	15,378,938	15,404,256
Total Net (expense) revenue	(42,913,992)	(46,852,100)	(48,033,617)	(40,830,805)	(40,802,615)	(39,681,069)	(38,481,130)	(34,300,974)	(33,912,538)
General Revenues and Other changes in Net Assets									
Governmental Activities:									
Taxes									
Real Property Taxes, Levied for General Purposes	6,481,511	6,114,035	6,024,885	4,680,355	5,590,772	5,913,401	4,399,593	4,945,540	5,094,960
Personal Property Taxes, Levied for General Purposes	516,905	557,999	653,748	601,109	593,057	589,401	496,286	474,360	679,089
Public Services Taxes	2,107,927	2,085,706	2,140,821	2,178,804	1,978,804	2,092,335	1,909,267	1,892,053	2,078,467
Taxes Levied for Bank Deposits	71,391	60,603	53,161	67,789	59,042	62,232	62,323	102,802	74,272
Insurance Premium Taxes	5,155,801	5,588,067	5,430,628	4,860,194	5,242,337	5,324,223	5,240,743	4,909,972	4,746,726
Payroll Taxes	22,595,598	22,850,229	23,697,247	23,267,559	21,656,929	21,263,831	19,543,654	18,319,549	17,683,867
Net Profit Taxes	2,404,497	2,285,504	2,555,089	2,779,489	2,959,729	2,554,150	2,303,123	2,590,933	1,993,189
Other Taxes	840,953	796,091	790,752	647,217	552,541	490,889	358,751	376,845	351,664
Investment earnings	47,503	25,094	112,064	317,416	389,885	310,239	228,382	132,820	186,286
Fines and Forfeitures	-	-	-	-	-	-	444,832	-	-
Licenses and Permits	-	-	-	-	-	-	367,376	-	-
Commissions	-	-	-	-	-	-	-	-	-
Special Item - Gain/(Loss) on Sale of Capital Assets	1,817,908	1,298,108	1,495,817	-	214,010	576,242	-	-	-
Miscellaneous	-	-	-	-	2,225,594	1,710,802	-	-	-
Transfers	-	-	-	-	-	-	-	-	-
Total General Revenues and Transfers	42,039,994	41,561,436	42,954,212	41,435,258	41,422,500	40,887,745	22,957,970	34,783,237	52,591,030
Change in Net Assets	(273,998)	(5,190,664)	(5,079,405)	604,453	619,885	1,206,676	(15,523,160)	482,263	18,678,492
Total Primary Government									
Total	64,498,205	65,212,891	64,866,259	58,944,334	55,750,706	54,891,874	54,437,285	49,679,912	49,316,794

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

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

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General Fund										
Reserved		342,498	41,414	4,483	1,611	122,892	5,388	-	-	125,771
Unreserved		342,498	730,555	735,839	675,320	550,513	229,739	291,457	920,556	1,204,865
Total general fund		342,498	771,969	740,322	676,931	673,405	235,127	291,457	920,556	1,330,656
All Other Governmental Funds										
Reserved										
Unreserved, reported in:										
Special revenue funds		4,007,906	4,821,080	4,296,812	3,713,572	810,353	1,207,276	2,578,865	3,439,783	3,037,818
Capital projects funds		(12,984)	156,251	91,947	469,730	-	-	-	-	-
Debt service funds		91,138	193,693	550,682	888,123	1,307,719	1,593,846	3,745,979	4,053,087	6,494,886
Restricted for:										
Capital Projects	1,577,223									
HUD Programs	1,318,568									
Police Incentive Fund	3,321									
Grant Programs	24,040									
Committed for:										
Devou Park Maintenance	12,064									
Police	119,051									
CAD System	10,523									
Debt Service	113,967									
Assigned for:										
Community Development	884,282									
Budget Deficit	202,358									
City Building Operations	73,211									
Capital Projects	185,190									
Unassigned	671,329									
Total all other governmental funds	\$ 5,195,127	\$ 4,086,060	\$ 5,173,024	\$ 4,939,441	\$ 5,071,425	\$ 2,118,072	\$ 2,801,122	\$ 6,324,844	\$ 7,492,870	\$ 9,572,046

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

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

	Fiscal Year								
	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues									
Taxes	14,643,134	14,987,054	14,707,297	13,682,151	13,554,260	13,466,713	12,762,470	12,395,102	12,104,042
Licenses and Permits	25,362,255	25,429,776	26,550,329	26,357,476	24,897,197	24,123,130	22,214,153	21,287,327	20,028,720
Intergovernmental	13,684,242	12,166,647	11,691,463	12,063,637	11,204,089	10,345,557	9,636,936	10,120,853	9,913,892
Charges for services	5,394,348	5,227,073	4,744,058	4,527,680	4,104,170	4,128,721	4,094,568	4,743,670	4,721,842
Fines and Forfeitures	558,465	746,322	712,072	669,260	711,786	603,286	444,832	476,752	447,020
Investment Earnings	47,244	24,439	99,619	270,519	330,536	278,531	223,704	123,538	186,286
Miscellaneous	2,004,920	1,351,353	1,557,868	2,382,312	2,342,372	1,734,234	4,109,294	1,539,153	2,656,223
Total Revenues	61,694,608	59,932,664	60,062,706	59,953,035	57,144,410	54,680,172	53,485,957	50,690,395	50,058,025
Expenditures									
Current									
General Government	4,315,649	3,785,714	3,783,523	3,554,133	3,092,518	3,537,750	3,365,074	3,366,630	3,558,293
Police	15,913,878	15,593,494	14,886,861	15,013,636	14,359,432	14,109,828	13,239,562	12,833,125	11,913,958
Fire	13,630,059	13,812,934	13,306,319	13,959,222	12,989,464	12,168,065	11,429,099	10,800,154	9,947,813
General Service	6,268,883	6,514,905	6,690,503	5,644,983	5,292,360	5,180,111	5,358,833	7,761,571	7,105,526
Recreation	455,212	504,309	2,533,103	2,347,048	2,309,959	2,289,413	2,372,300	717,870	737,049
Community Development	13,075,265	12,175,797	10,138,570	9,771,182	9,098,909	9,832,881	9,096,233	9,778,417	10,631,082
Parking Garage	865,947	732,362	701,986	747,677	734,401	727,419	803,715	809,425	743,982
Debt Service	3,131,379	2,980,841	3,516,517	2,918,685	2,727,985	2,763,879	5,593,494	7,665,518	12,325,046
Principal	1,503,485	1,679,854	2,054,516	1,829,031	1,701,223	1,965,386	1,509,839	1,464,763	1,605,271
Interest and Other Charges	4,300,102	4,982,528	6,715,050	4,159,916	3,257,621	2,701,215	6,722,898	3,082,026	6,247,041
Capital Outlay									
Total Expenditures	63,459,859	62,762,738	64,326,948	59,945,413	55,563,872	55,275,947	59,451,047	58,279,489	65,015,061
Excess of revenues Over (under) Expenditures	(1,765,251)	(2,830,074)	(4,264,242)	7,622	1,580,538	(585,775)	(5,965,090)	(7,589,104)	(14,957,036)
Other Financing Sources (Uses)									
Proceeds from Issuance of Debt	2,806,827		4,509,181		1,630,000		12,806,241	840,844	12,809,056
Payment to Bond Refinancing	(303,694)							4,996,000	
Bond Issuance Costs	(59,623)								
Transfers in	3,565,394	6,028,123	6,063,518	5,377,180	6,169,710	6,005,833	11,506,504	3,006,160	2,766,134
Transfer out	(3,865,395)	(6,228,123)	(6,747,200)	(5,881,142)	(6,663,029)	(6,252,032)	(25,926,704)	(3,051,160)	(3,111,334)
Proceeds from short term debt		1,040,563	75,419	427,747			596,202		
Miscellaneous							(1,000)		
Total other financing sources (uses)	2,458,509	840,563	3,900,918	(75,215)	1,196,681	351,003	(1,614,962)	5,791,944	12,463,856
Special Item									
Proceeds from Sale of Capital Assets	13,647	592,740	628,554		239,660				
Net change in fund balances	706,905	(1,456,771)	265,230	(68,593)	2,956,879	(244,772)	(7,580,052)	(1,797,160)	(2,493,180)
Debt service as a percentage of non-capital expenditures	7.83%	8.07%	9.67%	8.51%	8.47%	9.00%	13.40%	16.54%	23.70%

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

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

Fiscal Year	Total Gross Taxable Wages	Total Withholding Fees	Total Direct Rate
2002	675,150,120	16,878,753	0.025%
2003	707,354,680	17,683,867	0.025%
2004	732,781,960	18,319,549	0.025%
2005	781,746,160	19,543,654	0.025%
2006	850,553,240	21,263,831	0.025%
2007	866,277,160	21,656,929	0.025%
2008	931,502,360	23,287,559	0.025%
2009	947,889,880	23,697,247	0.025%
2010	914,009,160	22,850,229	0.025%
2011	903,823,920	22,595,598	0.025%

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

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

Taxpayer	
2011	2002
A. C. Nielsen	A. C. Nielsen
Atkins & Pearce	Atkins & Pearce
Club Chef	Commonwealth of Kentucky
Commonwealth of Kentucky	Covington Board of Education
Covington Board of Education	Duro Bag
Fidelity Investments	Fidelity Investments
Internal Revenue Service	Internal Revenue Service
Omnicare	No. Ky. Mental Health and Retardation Board
Rosedale Manor	Rosedale Manor
St. Elizabeth Hospital	St. Elizabeth Hospital

Notes: Taxpayer information is listed alphabetically.

Source: City of Covington Finance Department

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

Fiscal Year	Real Property	Personal Property	Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2002	1,374,693	179,133	60,047	1,493,779	0.322
2003	1,554,730	179,132	57,688	1,676,174	0.299
2004	1,600,532	155,966	58,542	1,697,956	0.299
2005	1,617,670	160,191	57,720	1,720,141	0.299
2006	1,687,690	203,668	57,570	1,833,788	0.299
2007	1,828,664	195,876	58,296	1,966,244	0.284
2008	1,861,435	187,585	61,243	1,987,777	0.292
2009	1,897,368	217,242	59,898	2,054,712	0.299
2010	2,014,385	159,294	62,311	2,111,368	0.299
2011	2,027,907	168,468	61,769	2,134,606	0.299

Notes: Property in Covington is reassessed once every four years. City property was reassessed in 2011. The next reassessment will occur in 2015. The reassessment is conducted by the Kenton County Property Value Administrator. The property is assessed at 100% of value.

Values are stated in thousands of dollars

Tax rates are per \$100 of assessed value.

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

Fiscal Year	City Direct Rate	School Districts			Totals			
		Covington Independent	Kenton County	County	State	Other	Covington Schools Area	Kenton County Schools Area
2002	0.3223	0.865	0.492	0.1310	0.135	0.1120	1.5420	1.1690
2003	0.2990	0.894	0.548	0.1310	0.133	0.1150	1.5720	1.2260
2004	0.2990	0.925	0.558	0.1350	0.131	0.1320	1.6220	1.2550
2005	0.2990	0.942	0.556	0.1360	0.131	0.1350	1.6430	1.2570
2006	0.2990	0.922	0.556	0.1380	0.128	0.1410	1.6132	1.2472
2007	0.2842	0.961	0.564	0.1410	0.124	0.1488	1.6590	1.2620
2008	0.2924	0.961	0.564	0.1420	0.124	0.1488	1.6682	1.2712
2009	0.2995	0.989	0.558	0.1420	0.122	0.1530	1.7055	1.2745
2010	0.2995	1.026	0.558	0.1480	0.122	0.1650	1.7605	1.2925
2011	0.2995	1.056	0.557	0.1480	0.122	0.1740	1.7995	1.3005

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

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

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

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

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year		Collected within the Fiscal Year of the Levy		Collections in Subsequent Years		Total Collections to Date	
	Fiscal Year	Amount	Amount	Percentage of Levy	Years	Amount	Amount	Percentage of Levy
2003	\$ 5,011,764	\$ 4,824,742	\$ 4,824,742	96.27%	177,563	\$ 5,002,305	\$ 5,002,305	99.81%
2004	5,076,892	4,907,183	4,907,183	96.66%	155,093	5,062,276	5,062,276	99.71%
2005	5,143,225	4,926,477	4,926,477	95.79%	191,959	5,118,436	5,118,436	99.52%
2006	5,483,028	5,293,287	5,293,287	96.54%	146,162	5,439,449	5,439,449	99.21%
2007	5,656,394	5,469,125	5,469,125	96.69%	122,480	5,591,605	5,591,605	98.85%
2008	5,900,071	5,672,319	5,672,319	96.14%	143,260	5,815,579	5,815,579	98.57%
2009	6,222,001	5,970,349	5,970,349	95.96%	98,348	6,068,697	6,068,697	97.54%
2010	6,385,509	6,027,733	6,027,733	94.40%	134,965	6,162,698	6,162,698	96.51%
2011	6,440,016	6,041,435	6,041,435	93.81%		6,041,435	6,041,435	93.81%

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

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

Fiscal Year	General Obligation Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
2003	\$ -	\$ 36,734	\$ 36,734	3.40%	\$ 847
2004	4,962	29,344	34,306	3.18%	791
2005	26,487	19,415	45,902	4.26%	1,058
2006	27,907	15,231	43,138	4.00%	995
2007	25,888	16,153	42,041	3.90%	970
2008	23,790	15,271	39,061	3.62%	901
2009	21,622	18,782	40,404	3.75%	932
2010	20,811	17,663	38,474	4.16%	893
2011	21,289	16,248	37,537	4.73%	871

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

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

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

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2003	\$ -	0.00%	\$ -
2004	4,962	0.29%	114.41
2005	26,487	1.54%	643.46
2006	27,907	1.52%	596.86
2007	25,888	1.32%	596.91
2008	23,790	1.20%	548.54
2009	21,622	1.05%	498.55
2010	20,811	0.99%	483.06
2011	21,289	1.00%	494.15

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

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

Debt Margin Calculation for Fiscal Year 2011
 Assessed value \$ 2,134,606
 Debt limit (10% of assessed va \$ 213,461
 Debt applicable to limit:
 General Obligation \$ 21,289
 Total net debt applicable \$ 21,289
 Legal debt margin \$ 192,172

	Fiscal Year								
	2011	2010	2009	2008	2007	2006	2005	2004	2003
Debt limit	\$ 213,461	\$ 207,746	\$ 205,471	\$ 198,778	\$ 196,624	\$ 183,379	\$ 172,014	\$ 169,796	\$ 167,618
Total net debt applicable to limit	21,289	20,811	21,622	23,790	25,888	27,907	26,487	4,962	-
Legal debt margin	\$ 192,172	\$ 186,935	\$ 183,849	\$ 174,988	\$ 170,736	\$ 155,472	\$ 145,527	\$ 164,834	\$ 167,618
Total net debt applicable to the limit as a percentage of debt limit	9.97%	10.02%	10.52%	11.97%	13.17%	15.22%	15.40%	2.92%	0.00%

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

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

Fiscal Year	Population (a)	Personal Income (a) (thousands of dollars)	Per Capita Personal Income (a)	Median Age (a)	School Enrollment (b)	Unemployment Rate (c)
2002	43,370	1,077,787	24,851	33.1	4,299	4.6%
2003	43,370	1,077,787	24,851	33.1	4,190	6.0%
2004	43,370	1,077,787	24,851	33.1	4,034	5.7%
2005	43,370	1,077,787	24,851	33.1	3,889	5.6%
2006	43,370	1,077,787	24,851	33.1	3,975	5.2%
2007	43,370	1,077,787	24,851	33.1	3,937	4.5%
2008	43,370	1,077,787	24,581	33.1	3,958	5.6%
2009	43,235	928,212	21,469	35.9	4,002	10.4%
2010	43,082	924,927	21,469	35.9	4,066	10.2%
2011	40,640	813,003	20,005	34.6	3,914	9.7%

Sources:

- (a) U. S. Department of the Census (2010 Census) & (1996 Census)
 2009 Data U. S. Census Bureau 2006-2008 American Community Survey 3-Year Estimate
- (b) Kentucky Department of Education
- (c) Kentucky Cabinet for Workforce Development

Schedule 15
 City of Covington
 Principal Employers,
 Current Year

Employer	2011		
	Employees	Rank	Percentage of Total City Employment
Internal Revenue Service	4,500	1	20.74%
Fidelity Investments	4,100	2	18.89%
Covington Board of Education	925	3	4.26%
St. Elizabeth Hospital	800	4	3.69%
A. C. Nielsen	400	5	1.84%
State of Kentucky	360	6	1.66%
Ommicare	325	7	1.50%
Club Chef	300	8	1.38%
No. KY MH-MR Board	280	9	1.29%
Atkins & Pearce Mftg	225	10	1.04%
Total	<u>12,215</u>		<u>56.29%</u>

Note: Data is unavailable for nine years ago.

Source: City of Covington Finance Department

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

<u>Function/Program</u>	<u>Full-time-Equivalent Employees as of June 30</u>									
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General government										
Management services	17	16	16	16	16	17	17	18	17	15
Finance	13	13	14	14	14	15	15	16	15	15
Economic development	7	7	7	7	6	5	5	7	6	5
Code enforcement	12	12	11	11	9	10	10	10	9	9
Housing	15	16	16	16	16	16	16	18	20	24
Police										
Officers	112	116	116	116	116	116	116	116	113	113
Civilians	28	31	31	31	33	34	34	32	31	31
Fire										
Firefighters and officers	118	118	118	118	118	118	118	117	117	117
Civilians	1	1	1	1	1	1	1	1	1	1
Other										
Public improvements	47	51	35	35	35	36	38	38	38	52
Engineering	4	4	4	4	3	2	2	3	3	3
Parks and recreation	2	2	20	20	18	20	20	20	20	3
Total	376	387	389	389	385	390	392	396	390	379

Source: City of Covington Finance Department

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

Function/Program	Fiscal Year									
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Police										
Physical arrests	5,763	5,899	5,248	5,321	5,762	5,819	5,342	5,017	5,167	4,942
Parking violations	14,520	13,926	15,873	14,230	14,863	15,622	14,721	13,016	13,775	15,494
Traffic violation	5,149	5,796	5,116	5,856	5,778	5,721	5,894	5,714	5,581	5,919
Fire										
Fire responses	2,731	2,657	2,818	3,658	3,752	3,985	4,167	3,951	4,209	4,376
Ambulance runs	9,112	8,595	10,542	11,549	10,246	9,742	8,602	7,927	7,931	7,755
Inspections	2,058	1,966	2,212	2,440	2,540	2,576	2,521	2,696	2,618	3,291

Source: City of Covington Police and Fire Record Management System

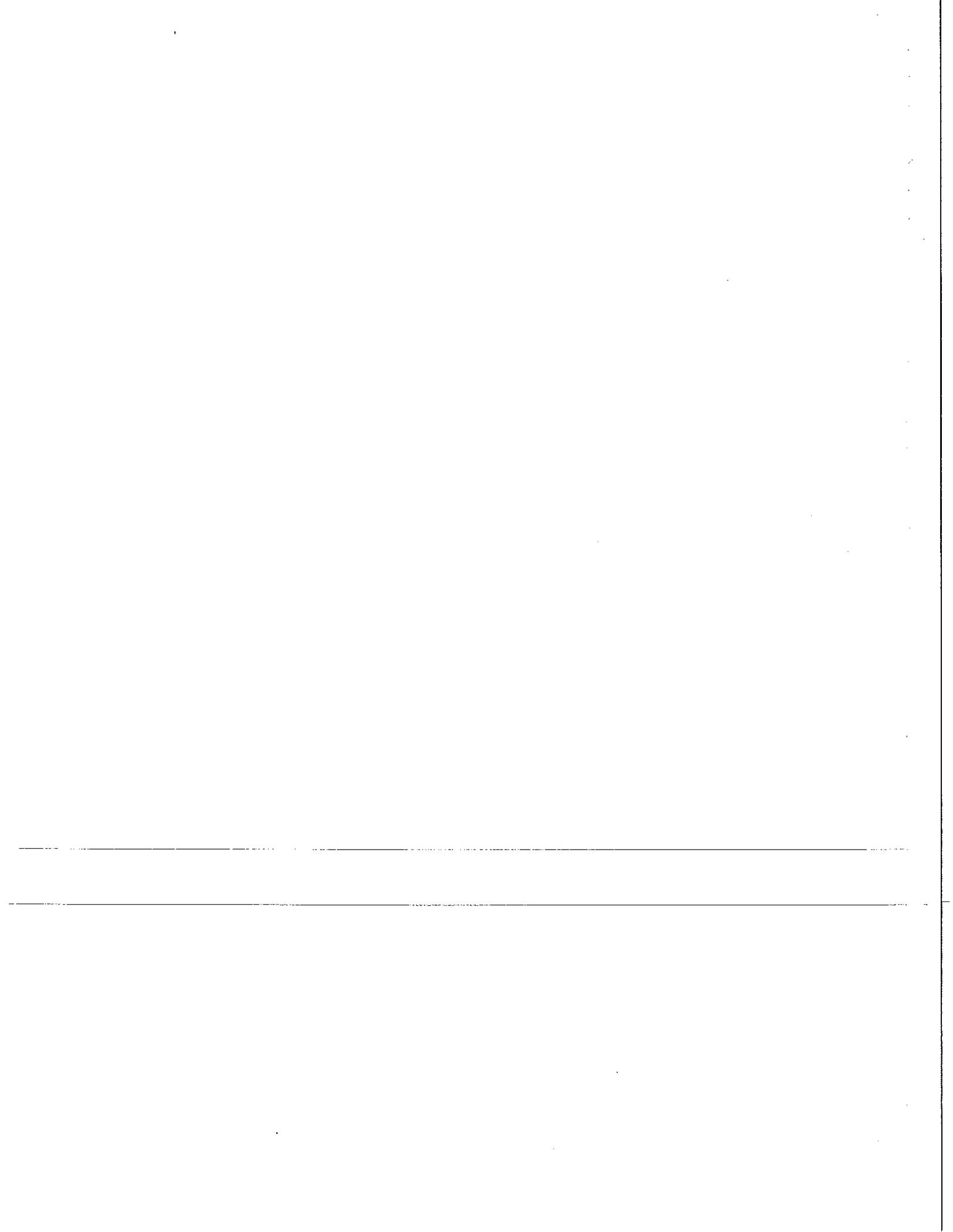
Schedule 18
 City of Covington
 Capital Assets Statistics by Function/Program,
 Last Ten Fiscal Years

Function/Program	Fiscal Year									
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Zone offices	4	4	4	4	4	4	4	5	5	5
Patrol units	83	83	83	83	83	83	83	83	83	83
Fire stations	5	5	5	5	5	5	5	5	5	5
Other public works										
Streets (miles)	120	120	120	120	120	130	126	126	120	120
Streetlights	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,246
Parks and recreation										
Acreage	850	850	850	850	850	850	850	850	850	850
Playgrounds	28	28	28	28	28	28	28	28	28	28
Baseball/softball diamonds	10	10	10	10	10	10	10	10	10	10
Soccer/football fields	5	5	5	5	5	5	5	5	5	5
Swimming pools	4	4	4	4	4	4	4	4	4	4

Source: City of Covington Engineering Department

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SINGLE AUDIT SECTION



CITY OF COVINGTON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2011

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Fund Balance at June 30, 2010	Revenues	Expenditures	Fund Balance at June 30, 2011
U.S. Department of HUD						
Direct Programs						
Section 8 Housing Choice Vouchers	14.871 (M)	KY-133-VO-0054-0F04 \$	868,019	\$ 6,722,004 (F) 10,591 (NF)	\$ 6,722,004 (F) (310,775) (NF)	-
Community Development Block Grants/Entitlement Grants	14.218	B-02-MC-21-0001	-	2,843,414 (F) 510,738 (NF)	2,843,414 (F) 510,738 (NF)	1,189,385
Homeless Prevention and Rapid Re-Housing (ARRA)	14.257 (M)		-	348,990 (F)	348,990 (F)	-
HOME Program	14.239 (M)	M-02-MC-21-0200 M-03-MC-21-0200	200,903	24,459 (NF) 677,098 (F)	96,179 (NF) 677,098 (F)	129,183
Community Challenge Planning Grants	14.704		-	24,871 (F)	24,871 (F)	-
U.S. Department of Transportation						
Pass Through From Kentucky Transportation Cabinet State and Community Highway Safety	20.600		-	54,231 (F)	54,231 (F)	-
U.S. Department of the Interior						
Direct Programs						
Historic Preservation Fund	15.904		-	2,097 (F)	2,097 (F)	-
U.S. Department of Justice Bureau of Justice Assistance						
Direct Programs						
Edward Byrne Memorial Formula Grant Program	16.579		-	19,088 (F)	19,088 (F)	-
U.S. Environmental Protection Agency						
Direct Programs						
Federally Assisted Wastewater Revolving Loan Fund Program (ARRA)	66.458 (M)		-	156,827 (F)	156,827 (F)	-
Brownfield Assessments and Cleanup (ARRA)	66.818 (M)		-	218,555 (F)	218,555 (F)	-
Total Federal Financial Assistance			\$ 1,068,922	\$ 545,788 (NF) 11,067,175 (F)	\$ 296,142 (NF) 11,067,175 (F)	\$ 1,318,568

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

Note to Schedule of Federal Awards

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

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

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Covington, Kentucky as of and for the year ended June 30, 2011, which collectively comprise the City of Covington, Kentucky's basic financial statements and have issued our report thereon dated December 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Devou Properties, Inc. as described in our report on the City of Covington, Kentucky's financial statements. The financial statements of Devou Properties, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Covington, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Covington, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Kentucky's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the finance committee, management, others within the organization, the Mayor and Board of Commissioners and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
December 13, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

Compliance

We have audited the City of Covington, Kentucky's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Covington, Kentucky's major federal programs for the year ended June 30, 2011. The City of Covington, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Covington, Kentucky's management. Our responsibility is to express an opinion on City of Covington, Kentucky's compliance based on our audit.

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

In our opinion, the City of Covington, Kentucky complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of the finance committee, management, others within the organization, the Mayor and Board of Commissioners and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
December 13, 2011

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

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Financial Statement Opinion	Unqualified
Were there any significant deficiencies in internal control reported at the financial statements level (GAGAS)?	No
Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
FEDERAL AWARDS	
Were there any significant deficiencies in internal control reported for major federal programs?	Yes
Were there any material weaknesses reported for major federal programs?	None Reported
Type of Major Programs Compliance Opinion	Unqualified
Is there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510?	Yes
Major Programs (list):	Section 8 Housing Choice Voucher [CFDA 14.871], HOME Program [CFDA 14.239], Homeless Prevention and Rapid Re-Housing (ARRA) [CFDA 14.257], Brownfield Assessments and Cleanup (ARRA) [CFDA 66.818], Clean Water State Revolving Fund [CFDA 66.458]
Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: > all others
Low Risk Auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters to be reported.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Internal Control Over Compliance

HOME Investment Partnership Program – CFDA No. 14.239; Grant No. M-03-MC-21-0200; Grant Period; Year Ended June 30, 2011.

2011-1

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

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

Effect: \$16,835 of the HOME Program loans are questioned for proper recording documentation not available for our examination. We consider this to be immaterial to the program.

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

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

Management's Response:

A policy went into place effective July 1, 2010 to review HOME Homebuyer Assistance Program files, As part of the review, Grants Administrator verifies the status of City mortgages.
Review Procedure:

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

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-2

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

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

Effect: \$17,000 of the HOME Program loans are questioned for proper inspection documentation not available for our examination. We consider this to be immaterial to the program.

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

Recommendation: Appropriate written policies and procedures should be established and enforced to ensure proper documentation of inspections performed on each property is maintained.

Management's Response:

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

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

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Internal Control Over Compliance

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

2010-1

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

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

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

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

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

Management's Response:

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

Review Procedure:

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

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

- If mortgage has not been returned, HOME program staff contacts title company that handled closing to determine status. If title company has the City's mortgage but has failed to record it, the HOME program staff will direct title company to return the mortgage to the City for filing
- If City mortgage cannot be located, HOME program staff will contact homebuyer to sign new mortgage and will record it.

Current Year Status:

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

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