

CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2006

Prepared By:
Robert J. Due
Director of Finance

**CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2006**

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 Balances – Governmental Funds	28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Government-Wide 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 - 54

**CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2006**

**TABLE OF CONTENTS
(Continued)**

	PAGE
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance	
Budget and Actual – General Fund	55 - 57
Budget and Actual – Community Development Block Grant	58
Budget and Actual – Home Program	59
Budget and Actual – Housing Voucher Program	60
OTHER SUPPLEMENTARY INFORMATION	
Combining Financial Statements – Non-Major Governmental Funds	
Non-Major Governmental Funds	61 - 62
Combining Balance Sheet – Non-Major Governmental Funds	63 - 64
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	65 - 66
Individual Fund Schedules – Non-Major Governmental Funds	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Police and Fire Incentive	67
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Newport Steel UDAG	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 – Investor Program	70
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – City Hall Operations	71
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Covington Landing Operations	72
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Arts District	73
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – 501 Main Street Operations	74
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Police Forfeiture	75

**CITY OF COVINGTON, KENTUCKY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Year Ended June 30, 2006**

**TABLE OF CONTENTS
 (Continued)**

	PAGE
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Police Block Grant	76
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – CAD System	77
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – KLC Series 2002	78
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Working Capital Reserve	79
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Improvement Fund	80
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – 1990 First Mortgage Bonds	81
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – 1995 First Mortgage Bonds	82
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – 2004 Pension Obligation Bonds	83
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – 2005 Refunding Bonds	84
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Sewer Maintenance Fees	85
Combining Financial Statements – Proprietary Funds	
Combining Statement of Net Assets – Internal Service Funds	86
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds	87
Combining Statement of Cash Flows – Internal Service Funds	88
Individual Fund Schedules – Proprietary Funds	
Schedule of Revenues, Expenses and Changes in Fund Net Assets – Budget and Actual – Liability Insurance	89
Schedule of Revenues, Expenses and Changes in Fund Net Assets – Budget and Actual – Medical and Dental Insurance	90
Combining Financial Statements – Fiduciary Funds	
Combining Statement of Fiduciary Net Assets – Fiduciary Funds	91
Combining Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	92

**CITY OF COVINGTON, KENTUCKY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Year Ended June 30, 2006**

**TABLE OF CONTENTS
 (Continued)**

	PAGE
STATISTICAL SECTION	
Net Assets by Component	93
Change in Net Assets	94
Fund Balances, Governmental Funds	95
Changes in Fund Balance, Governmental Funds	96
Assessed Value of Estimated Value Taxable Properties	97
Direct and Overlapping Property Tax Rates	98
Principal Property Tax Payers	99
Property Tax Levies and Collections	100
Ratios of Outstanding Debt by Type	101
Ratios of General Bonded Debt Outstanding	102
Legal Debt Margin Information	103
Demographic and Economic Statistics	104
Principal Employers	105
Full-Time-Equivalent City Government Employers by Function/Program	106
Operating Indicators by Function/Program	107
Capital Asset Statistics by Function/Program	108
SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	109
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>	110 - 111
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	112 - 113
Schedule of Findings and Questioned Costs	114 - 115
Schedule of Status of Prior Year Findings and Questioned Costs	116

INTRODUCTORY SECTION



CITY OF COVINGTON

638 MADISON AVENUE • COVINGTON, KENTUCKY 41011-2298

OFFICE OF THE CITY MANAGER

December 19, 2006

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

Formal Transmittal of the 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) and audited in accordance with generally accepted auditing standards by a 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, 2006.

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.

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, 2006, 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, 2006, 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 1834, 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 a population of 43,370. The City of Covington is empowered to levy numerous taxes and fees including its major sources an occupational license tax levied on both gross wages and net profits, insurance premiums tax and a property tax on both real and personal properties. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing body.

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 and City Commissioners will be held in 2008 with the Mayor and Board of Commissioners to take office on January 1, 2009.

The City of Covington provides a full range of services including a full time professional police service and full time professional fire service; basic 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: and these activities are included in the reporting entity.

The annual budget serves as the foundation for the City of Covington's financial planning and control. All departments of the City of Covington are required to submit budget requests for appropriation to the City Manager. 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. The City Manager cannot make transfers of appropriations between departments without the approval of the City Commissioners. Expenditures may not legally exceed budgeted appropriations at the departmental level. Any revisions to the budget that would alter total revenues and department expenditures of any fund must be approved by the City Commissioners. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 55-57 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 58. 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 continued economic growth in the foreseeable future.

During 2006, construction began on a \$14.4 million connector road to the Fidelity Investment Campus. The connector road will allow for construction of a 350,000 square foot addition to the Campus at a cost of approximately \$110 million. A total of 1,500 jobs will be added by the end of 2010. 750 jobs will be filled by the end of 2008. The Northern Kentucky Chamber of Commerce has estimated an economic impact of 3,450 spin off jobs and an increase of \$23.5 million in additional household income.

St. Elizabeth Medical Center and Health Point Family Health Center announced plans to build a \$34 million facility that will employ an additional 450 people. In November 2006, Kentucky Governor Fletcher approved a \$3.2 million for a road that will provide access to the property located on 10.5 acres that abut Interstate 71/75.

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 projected to create an economic

impact of \$464 million when completed. The City has received \$1 million from the State for planning the project

Several retail, dining, and entertainment facilities have opened in the downtown area including Clique Lounge, Jean Robert's Greenup Café, Atlanta Bread, and Lucy Blue Pizza.

The Covington Arts and Technology Zone developed in 2005 has served as a catalyst for the opening of numerous new exciting businesses including the Marx Art Galleries and Studios, Passionate Art Studio, Leapin Lizard Gallery, and Encore Design.

In addition, more than \$60 million in residential development projects in the downtown area have broken ground in the most recent year. The Ascent at Roebing Bridge which is a \$47 million, 80- unit, 21-story condominium tower designed by Daniel Lebskind will be complete by the end of 2007. The Pulse a 64-unit, \$13 million loft condominium project in the Seminary Square neighborhood is scheduled to open in 2008. The Views, when complete, will add 100-125 residential homes priced from \$250,000 each. In addition smaller developments of luxury apartments and commercial storefronts are being constructed throughout the Covington Arts and Technology Zone.

Cash management policies and practices. The City entered into a depository agreement, which became effective January 1, 2003 with the U.S. Bank. The pension trust fund's investment portfolio includes common stock, corporate bonds, and treasury notes. The average yield on investments, except for the pension trust fund, was 4.42%. The pension trust funds averaged a return of 10.84% for the same period. The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its' portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. All collateral on deposits was held either by the City, its' agent, or a financial institution's trust department in the City's name. All of the investments held by the City during the year ended June 30, 2006 are classified in the category of lowest risk as defined by the Governmental Accounting Standards Board

Risk management. During the year the City's Risk Management function continued efforts to reduce work related injuries and reducing overall risks by providing increased training and by working with departments to help keep work environments safe. The City self- insures against liability exposures from general liability, auto liability, auto physical damage, public official liability and law enforcement liability. Claims against this fund are processed by the City Solicitor's office. Claims and legal expenses over the past ten years have averaged \$339,579 per year.

In addition, the City self- insures employee medical, dental, and vision coverage. Claims administration is handled by Medical Benefits Administrators, Inc. A stop loss policy for medical claims has been purchased with individual loss limits set at \$125,000 per year.

Pension and other post employment benefits: The City has two pension funds, both of which are closed to new members. All City employees are now covered under the Kentucky Retirement System. There are two remaining active employees participating

in the City Employees' Retirement Fund and no active employees participating in the Police and Firemen's Retirement Fund as of June 30, 2006.

Awards and Acknowledgements

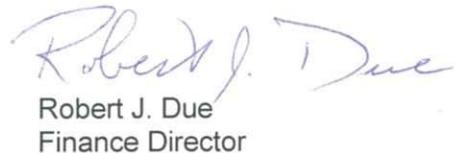
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the thirteenth consecutive year that the City has received this prestigious 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. Credit must also be given to the Mayor and Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of the finances of the City of Covington.

Respectfully submitted,



Jay Fossett
City Manager



Robert J. Due
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Covington
Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

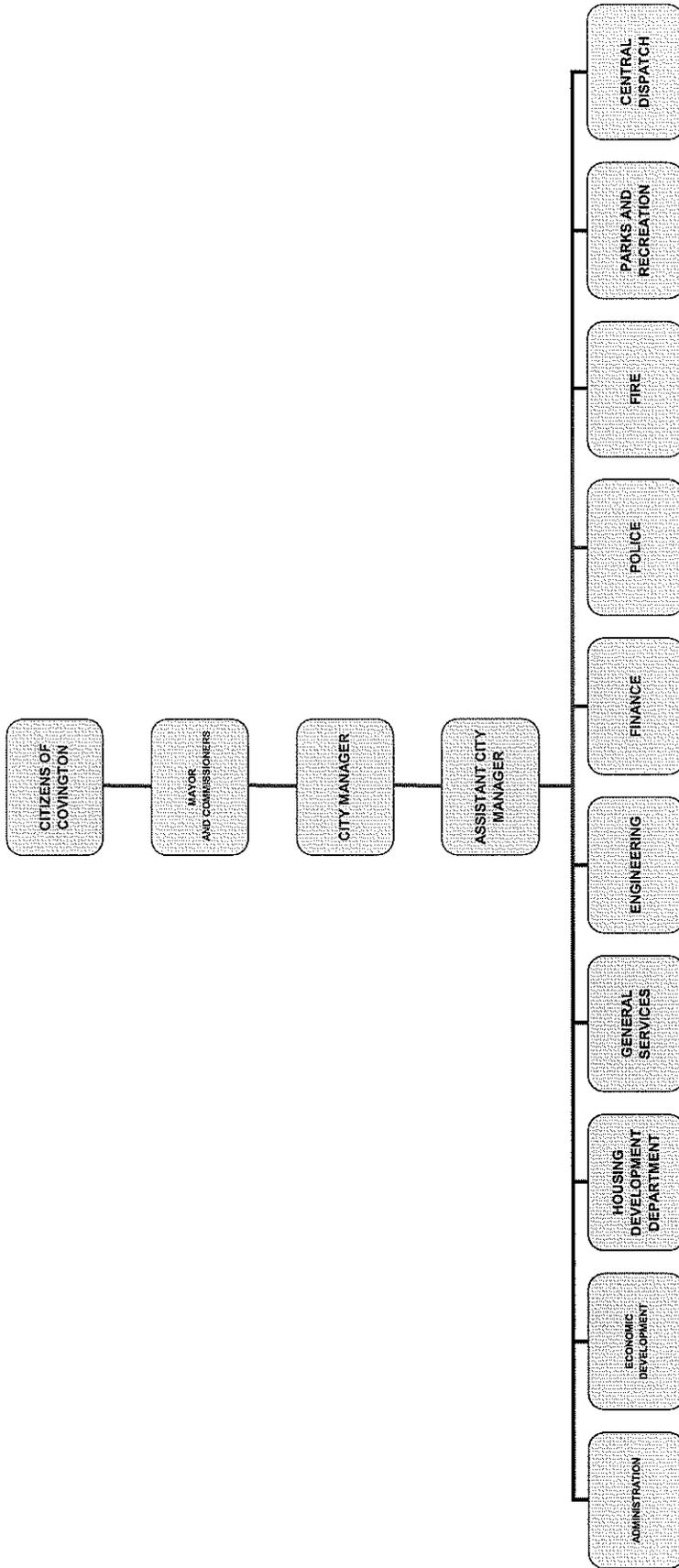
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

CITY OF COVINGTON, KENTUCKY
ORGANIZATIONAL CHART



**CITY OF COVINGTON, KENTUCKY
LIST OF PRINCIPAL OFFICIALS
June 30, 2006**

MAYOR

Irvin T. Callery

COMMISSIONERS

Gerald Bamberger

Alex Edmondson

Rob Sanders

Jerry Stricker

STAFF

City Manager – John Jay Fossett

Assistant City Manager – William Moller

City Solicitor – Frank Warnock

City Clerk – Tracy Denham

Finance Director – Robert J. Due

Chief of Police – Thomas Schonecker

Fire Chief – Charles Wheatley

Director of Recreation and Parks – Denny Bowman

City Engineer – Tom Logan

Housing Development Director – Aaron Wolfe-Bertling

Director of Municipal Works – Jim Eggemeier

Economic Development Director – Gail Melvin

Director of Code Enforcement – Keith Bales

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of and for the year ended June 30, 2006, 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 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 U.S. generally accepted auditing standards 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006, 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, contract, 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

The management's discussion and analysis on pages 11 through 23 and budgetary comparison schedules on pages 55 through 60, pages 67 through 85 and pages 89 through 90, are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Kentucky basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The other supplementary information and the supplementary schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

VonLehman & Company Inc.

Fort Mitchell, Kentucky
December 1, 2006



CITY OF COVINGTON

638 MADISON AVENUE • COVINGTON, KENTUCKY 41011-2298

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of City of Covington, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's basic financial statements, which begin on page 24.

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.

Reporting the City as a Whole

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$45,915,215 (net assets), and represent an increase of \$1,206,676 from the prior year as Restated. The increase in net assets is the result of a \$2,870,947 decrease in bonds payable and compensated absences payable. Bonds payable and compensated absences payable fell from \$47,052,106 as of June 30, 2005 to \$44,181,159 as of June 30, 2006. There was also an \$810,679 increase in notes receivables and other long term assets which are not available to pay current period expenditures. Notes receivable represent primarily business loans, residential rehab loans, and residential home improvement loans that were issued during the current period net of repayments on existing loans. Notes receivable increased from \$17,449,450 as of June 30, 2005 to \$18,260,129 as of June 30, 2006. Net assets were reduced by a \$2,349,999 reduction in capital assets. Land and depreciable assets less accumulated depreciation decreased from \$70,225,668 in fiscal year 2005 to \$67,875,489 in fiscal year 2006. Of the total net assets in the amount of \$45.92 million, \$40.85 million represents investment in capital assets (e.g. land, infrastructure, building, machinery, and equipment net of related debt, \$1.31 million is restricted for debt service, and \$3.76 million is unrestricted and may be used to meet the City's ongoing obligations.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$2,791,477. This was a decrease of \$244,772 in comparison to the prior year. The decrease was a result of a number of factors primarily in the non-major governmental categories. The General Fund balance actually increased \$438,278 from \$235,127 as of June 30, 2005 to \$673,405 as of

June 30, 2006. Of the other major funds, the fund balance of the Home Program increased \$13,902 while the Housing Voucher fund balance fell \$56,619. The non major funds include Special Revenue Funds and Debt Service Funds. There was a net decrease in fund balance of \$640,333 in the Special Revenue and Debt Service Funds.

Special Revenue Funds that earned an increase in fund balance include: Covington Landing Operations, Working Capital Reserve, Devou Park Maintenance, City Hall Operations, 501 Main Street Operations, Police Forfeiture, Police Block Grant, and CAD System Funds. The Working Capital Reserve Fund was established during the current fiscal year. The Working Capital Reserve Special Revenue Fund was established by the Board of Commissioners to create a reserve to protect funding for the viable operation of city government. During the current fiscal year, the city sold a parking garage and a vacated firehouse. The proceeds were deposited into the Working Capital Reserve but subsequently transferred with the approval of the Commission to the Covington Landing Operations Special Revenue Fund. Covington Landing Special Revenue Fund had a negative fund balance of \$570,170 as of July 1, 2005. With transfers from the Working Capital Reserve and the General Fund, the negative fund balance in the Covington Landing Operations Fund was eliminated upon the sale of the floating restaurant and entertainment center. A balance of \$330,604 remains in the Working Capital Reserve as of June 30, 2006. It was transferred from the General Fund. The transfer was made possible by a comprehensive cost reduction plan approved by the Board of Commissioners. In the future, proceeds from the sale of assets not restricted by source of funds used to purchase the asset will be deposited into the Working Capital Reserve in compliance with an ordinance adopted by the Board of Commissioners.

Special Revenue Funds that experienced a decrease in fund balance include: Newport Steel UDAG, Investor Program, Arts District, and KLC Series 2002. The decrease in Newport Steel Fund balance from \$986,943 as of June 30, 2005 to \$72,945 as of June 30, 2006 was a result of \$479,753 issued in commercial and small business loans net of current year loan repayments. The loans were issued primarily as construction loans to be repaid within twenty four months. The balance of the disbursements from the Newport Steel UDAG Fund was as follows: \$348,000 transferred to General Fund to support the Economic Development Department and \$150,000 transferred to General Fund that subsidizes the Madison Avenue E-Zone project. The negative fund balance in the Investor Program and the Arts District Special Revenue Funds are also a result of loans issued net of repayments.

The \$210,082 current year loss in the KLC Series 2002 Fund when added to the negative fund balance as of June 30, 2005 in the amount of \$842,946 leaves a negative fund balance of \$1,053,028 as of June 30, 2006. The loss was a result of the demolition and reconstruction of the Water Park. Plans are to finance the reconstruction through debt issuance during the fiscal year ending June 30, 2007. The negative fund balance will then be eliminated. Any proceeds from litigation that has been filed will be used to pay down the debt.

Debt Service Fund Balances decreased \$286,128 of which \$291,782 was paid to Sanitation District pursuant to agreement when the City transferred responsibility for

maintenance of the sanitary sewer system to the independent Sanitation District. Sufficient taxes have been collected to pay the interest free debt. Final payment will be made in January of 2009. Other Debt service payments were financed with transfers from General Fund.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$673,405, or 1.56% of total General Fund expenditures and transfers out. The \$673,405 unreserved balance for General Fund when combined with balance of \$330,604 in Working Capital reserve is \$1,004,009 which is 2.34% of total General Fund expenditures and transfers out.

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. The City's net assets, the difference between assets (what the taxpayers own) and liabilities (what the taxpayers owe) is one way to measure the City's financial health, or *financial position*. 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 nonfinancial factors must be considered as well, such as changes in the City's property tax base, income tax base, and the condition of the City's capital assets (roads, buildings, equipment and sidewalks) to assess the *overall health* of the City.

In the Statement of Net assets and the Statement of Activities, the City reports all of its governmental activities:

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

Reporting the City's Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 55. The non-major fund financial statements begin on page 61 and provide detailed information about the remainder of the City's funds. Some funds are required to be established by State law. However, the City Commissioners establishes many other funds to help control and

manage money for particular purposes (i.e., Police Forfeiture Fund, Covington Landing Fund, City Hall Operations Fund, etc.) or to show that it is meeting legal responsibilities for grant funds (i.e. Community Development Block Grant Fund, Newport Steel UDAG Fund, Housing Voucher Fund, HOME Program Fund, etc.). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

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 you 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.

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. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

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 AS A WHOLE

For the year ended June 30, 2006, net assets changed as follows:

	Governmental Activities 2006	Governmental Activities 2005	Increase (Decrease) From FYE 05
Current and other assets	\$ 26,643,600	\$ 25,269,948	\$ 1,373,652
Capital assets	<u>68,290,983</u>	<u>70,687,979</u>	<u>(2,396,996)</u>
Total assets	<u>94,934,583</u>	<u>95,957,927</u>	<u>(1,023,344)</u>
Current liabilities	10,109,057	8,116,088	1,992,969
Non-current liabilities	<u>38,910,311</u>	<u>43,133,300</u>	<u>(4,222,989)</u>
Total liabilities	<u>49,019,368</u>	<u>51,249,388</u>	<u>(2,230,020)</u>
Net assets:			
Invested in capital assets, net of debt	40,851,867	41,167,084	(315,217)
Restricted	1,307,719	1,593,846	(286,127)
Unrestricted	<u>3,755,629</u>	<u>1,947,609</u>	<u>1,808,020</u>
Total net assets	<u>\$ 45,915,215</u>	<u>\$ 44,708,539</u>	<u>\$ 1,206,676</u>

The total assets of the City on June 30, 2006 were \$94.9 million, while total liabilities were \$49.0 million, resulting in net assets of \$45.9 million. The largest component of the City's net assets, \$40.9 million or approximately 89.1%, reflects its investment in capital assets. Unrestricted net assets which represent funds that may be used at the City's discretion increased \$1,808,020. Net Assets increased \$1,206,676 with revenue of \$56,098,550 against expenditures of \$54,891,874. Revenue increased \$2,909,425 or 5.47% while expenditures increased only \$454,589, or 0.84%.

Governmental Activities

	Governmental Activities 2006	Governmental Activities 2005	Increase (Decrease) From 05
Revenues:			
Program revenues:			
Charges for services	\$ 4,842,167	\$ 4,094,568	\$ 747,599
Operating grants and contributions	9,652,316	8,754,883	897,433
Capital grants	716,322	3,106,704	(2,390,382)
General revenues:			
Taxes	38,866,704	35,125,948	3,740,756
Interest	310,239	228,382	81,857
Other	1,710,802	1,878,640	(167,838)
Total revenues	<u>56,098,550</u>	<u>53,189,125</u>	<u>2,909,425</u>
Expenses:			
General government	7,781,587	9,381,965	(1,600,378)
Police	14,482,761	13,660,495	822,266
Fire	12,512,512	11,930,245	582,267
General services	5,324,831	5,561,622	(236,791)
Recreation	2,325,250	2,575,568	(250,318)
Housing and economic developmen	9,817,626	9,086,241	731,385
Parking Garage	727,419	803,715	(76,296)
Interest on long term debt	1,919,888	1,437,434	482,454
Total expenses	<u>54,891,874</u>	<u>54,437,285</u>	<u>454,589</u>
Increase in net assets before transfers and other expenses	1,206,676	(1,248,160)	2,454,836
Transfers	0	(14,275,000)	
Other expenses	-	-	-
Increase in net assets	<u>1,206,676</u>	<u>(15,523,160)</u>	<u>16,729,836</u>
Net assets - July 1	44,708,539	60,231,699	(15,523,160)
Net assets - June 30	<u>\$ 45,915,215</u>	<u>\$ 44,708,539</u>	<u>\$ 1,206,676</u>

Revenues for the City's governmental activities totaled \$56.1 million. Taxes which include occupational license fees, property taxes, insurance premiums taxes, and net profit taxes increased \$3,740,756 (10.7%) and represent 69.3% of all revenue. The growth in taxes documents the continued expansion of jobs and business opportunities. The \$2,390,382 increase in capital grants is the one time donation of the Drees Pavilion in Devou Park in the amount of \$2,224,651 during fiscal year 2005.

Total expenses for the City's governmental activities were \$54.9 million. Public Safety expenses totaled \$27.0 million and accounted for 49.1% of all expenditures. One-time

retroactive reporting of infrastructure costs in fiscal year 2005 explains the \$1,600,378 decrease in general government expense. Emphasis on Public Safety was reflected in an increase of \$822,266, or 6.0% in Police expense and an increase of \$582,267, or 4.9% in Fire expense. Temporarily unfilled positions in General Services and Recreation caused a decrease of \$236,791 and \$250,318 respectively in expenses. The \$731,385 increase in Housing and Economic Development activities reflects emphasis on improving housing stock and increasing home ownership. The City has also invested in small business and commercial development projects to spur economic activity and increase the number of jobs through short-term construction loans.

During fiscal year 2005, the city issued new debt to fund unfunded liability of the two City defined benefit pension plans. Fiscal year 2006 was first full year of debt service payments and accounts for the \$482,454 increase in debt service. No new debt was issued in fiscal year 2006.

THE CITY'S FUNDS

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Commissioners revised the General Fund budget one time. The budget amendment was to decrease revenues and expenditures to more closely reflect the anticipated actual revenues and expenditures for the year and, more importantly, to aggressively reduce spending limits to meet the objective of saving \$330,604 and transfer the savings to the newly established Working Capital Reserve.

Still General Fund exceeded budgeted revenue and budgeted expense. However, the \$1,099,993 by which revenue exceeded budget more than compensated for the \$841,769 by which expense exceeded budget. Instead of an \$180,113 increase to fund balance, the City was successful in establishing a \$438,278 increase to fund balance. This does not include the \$330,604 in savings that was earned during the year and transferred to the Working Capital Reserve.

The final budget modification was adopted on May 9, 2006. Between early May and June 30, a payment of back taxes was collected which had not been budgeted. The amount collected was approximately \$400,000. Proceeds from franchise taxes exceeded budget by \$368,578. There were two elements to the increase in franchise taxes. The utility tax portion of the franchise tax exceeded expectations because of higher utility rates and higher than expected utility consumption. The portion of the franchise tax that is generated by the telecommunication industry is new and difficult to estimate. It was just recently adopted with state legislation passed in early calendar year 2006.

With anticipated changes to health care plan design, costs for health insurance spiked for the city in May and June of 2006 to unprecedented levels. Transfers from the General Fund to the Medical Insurance Fund which are reflected in Department budgets as Employee Benefits were higher than budgeted. Actual expense for the Employee Benefit category exceeded budget by \$169,510.

Debt service also exceeded budget amounts. Debt service for the Covington Landing entertainment facility was assumed by General Fund when the asset was sold. In addition, debt service for Devou Park Golf Course was absorbed by General Fund when cash flow from golf course was not sufficient to cover debt service.

The following schedules and charts present a summary of general, special revenue and capital project revenues and expenditures for the fiscal year ended June 30, 2006, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2006 Amount	Percent Of Total	Increase (Decrease) From FYE 05	Percent Increase (Decrease)
Taxes	\$ 12,976,164	30.70%	\$ 572,444	4.75%
Licenses and permits	24,123,130	57.07%	1,908,977	8.97%
Intergovernmental	447,626	1.06%	(550,806)	-58.46%
Fines and forfeitures	603,286	1.43%	158,454	33.10%
Charges for services	3,686,541	8.72%	(18,938)	-0.53%
Interest	91,506	0.22%	50,208	320.39%
Miscellaneous	341,226	0.81%	(2,276,631)	-878.91%
Total revenues	\$ 42,269,479	100.00%	\$ (156,292)	-0.40%

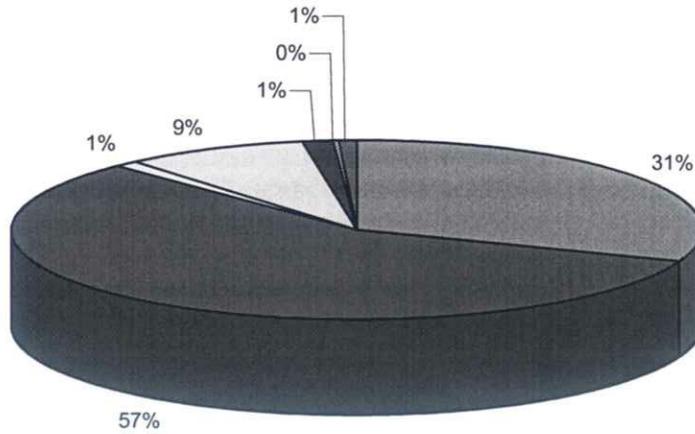
Taxes which contributed to the \$572,444 increase were real estate and personal property taxes which increased \$305,987 from fiscal year 2005 and the utility franchise tax which increased \$131,868 from prior year. The payroll occupational license fee increased from \$19.5 million in fiscal year 2005 to \$21.2 million in fiscal year 2006, an 8.8% jump. Payroll occupational license fees are 55.1% of all General Fund revenue exclusive of transfers from other funds. Net profit occupational license fees increased \$251,027, or 10.9%.

State Municipal Road Aid funds were transferred to the Capital Improvement Fund that was established in current year. Instead of recognized in General Fund, receipts from the state through the Municipal Road Aid Fund were transferred to Capital Improvement Fund, which explains \$550,806 decrease in Intergovernmental revenue in General Fund.

Fines and forfeitures increased with the doubling of parking fines. Fines had not been increased in over twenty years. Charges for services remained at essentially the prior year level. Interest income, which by contract, is tied to Federal Fund rate increased with hikes to the Federal Fund rate.

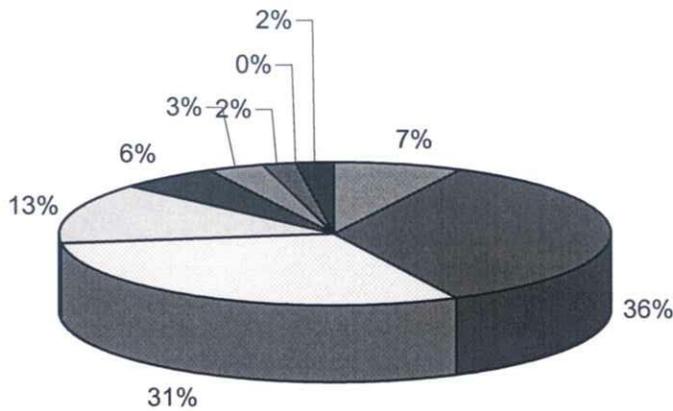
\$2,224,651 of the \$2,276,631 decrease in miscellaneous revenue was the one time donation of the construction of the Drees Pavilion in Devou Park in fiscal year 2005.

2006 General Fund Revenues



Property taxes	\$12,976,164
Licenses and permits	\$24,123,130
Intergovernmental	\$447,626
Charges for services	\$3,668,541
Fines	\$603,286
Interest	\$91,506
Miscellaneous	\$341,226

2006 General Fund Expenditures



General Government	\$2,867,294
Police	\$13,617,185
Fire	\$11,729,356
General Services	\$5,180,111
Recreation	\$2,289,413
Code Enforcement and economic development	\$1,282,046
Parking Garage	\$727,419
Capital Outlay	\$15,490
Debt Service	\$883,074

<u>Expenditures</u>	<u>FYE 2006 Amount</u>	<u>Percent Of Total</u>	<u>Increase (Decrease) From FYE 05</u>	<u>Percent Increase (Decrease)</u>
General government	\$ 2,867,294	7.43%	\$ 305,794	12.46%
Public safety	25,346,541	65.68%	1,669,251	8.10%
General services	5,180,111	13.42%	(178,722)	-2.52%
Recreation	2,289,413	5.93%	(82,887)	-11.25%
Code enforcement and economic development	1,282,046	3.32%	(50,350)	-4.82%
Parking garage	727,419	1.88%	(76,296)	-10.26%
Capital outlay	15,490	0.04%	(3,272,213)	-170.35%
Debt service	883,074	2.29%	64,968	14.13%
Total expenditures	\$ <u>38,591,388</u>	<u>100.00%</u>	\$ <u>(1,620,455)</u>	-3.86%

Major factors which had an impact on 2006 expenditures include: additional health care costs in the amount of \$500,247, a 10.9% increase and increased contributions to Kentucky Retirement System in the amount of \$364,993, or 10.1%. The increases were offset by reduction of personnel costs by not filling staff vacancies. Capital Outlay costs reflect transfer of all capital expenditures to a new Special Revenue Fund, the Capital Improvement Fund.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had \$43,138,299 in outstanding notes, capital leases and bonds compared to \$45,902,145 the prior year.

	Governmental Activities	
	2006	2005
Mortgage Bonds payable (backed by city)	\$ 26,102,144	\$ 27,786,251
Note payable (backed by city)	1,804,865	2,202,130
Capital lease obligations (backed by city)	15,231,290	15,913,764
Totals	<u>\$ 43,138,299</u>	<u>\$ 45,902,145</u>

No new debt was issued during the year.

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

Capital Assets

	Governmental Activities	
	2006	2005
Land	\$ 13,743,955	\$ 13,738,073
Land improvements	1,159,362	1,159,362
Building	23,354,973	22,794,511
Building Improvements	8,062,010	9,586,501
Vehicles	8,230,166	8,030,196
Other equipment	4,655,153	4,605,490
Public domain infrastructure	103,464,550	102,115,961
Construction in progress	295,402	295,402
TOTALS	<u>\$ 162,965,571</u>	<u>\$ 162,325,496</u>

Additional information on the City's capital assets can be found on page 44.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While it is too early to have an effect on the fiscal year 2007 budget, construction began on a \$14.4 million connector road to the Fidelity Investment Campus at a cost of

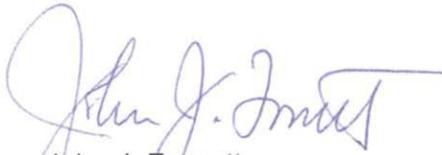
approximately \$110 million. A total of 1,500 jobs will be added by the end of 2010 with 750 employed by the end of 2008.

St. Elizabeth Medical Center and Health Point Family Health Center announced plans to build a \$34 million facility that will employ an additional 450 people. In November 2006, Kentucky Governor Fletcher approved \$3.2 million for a road that will provide access to the property located on 10.5 acres that abut Interstate 71/75.

The Ascent at Roebling Row is a \$47 million, 80- unit, 21- story condominium tower to be complete by the end of 2007.

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 the Administrative Office or the Department of Finance at 638 Madison Avenue, Covington, Kentucky.



John J. Fossett
City Manager

CITY OF COVINGTON, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government	Component Unit
	Governmental Activities	Devou Properties, Inc.
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 3,109,117	\$ 752,403
Receivables		
Taxes	746,674	-
Intergovernmental	432,419	-
Notes	15,719,948	-
Accounts	6,382,335	163,198
Prepays	122,892	-
Inventories	130,215	-
	26,643,600	915,601
Noncurrent Assets		
Deferred Charges, Net	415,494	-
Land and Construction in Progress	15,198,719	-
Depreciable Capital Assets	147,766,852	15,908
Less Accumulated Depreciation	(95,090,082)	(4,457)
	68,290,983	11,451
Total Assets	94,934,583	927,052
Liabilities		
Current Liabilities		
Accounts Payable and Bank Overdrafts	1,331,266	132,559
Accrued Liabilities	1,522,961	27,544
Accrued Interest Payable	173,340	-
Unearned Revenue	564,539	330,775
Due to Other Funds	1,246,103	-
Current Portion of Accumulated Compensated Absences	1,042,864	-
Current Portion of Capital Lease Obligations	2,208,586	-
Current Portion of Bonds and Notes Payable	2,019,398	-
	10,109,057	490,878
Noncurrent Liabilities		
Noncurrent Portion of Capital Lease Obligations	13,022,704	-
Noncurrent Portion of Bonds and Notes Payable	25,887,607	-
	38,910,311	-
Total Liabilities	49,019,368	490,878
Net Assets		
Invested in Capital Assets, Net of Related Debt	40,851,867	11,451
Restricted for Debt Service	1,307,719	-
Unrestricted	3,755,629	424,723
Total Net Assets	\$ 45,915,215	\$ 436,174

See accompanying notes

CITY OF COVINGTON, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit
Primary Government						
Governmental Activities:						
General Governmen	\$ 7,781,587	\$ 1,215,111	\$ 112,447	\$ -	\$ (6,454,029)	
Police	14,482,761	372,192	517,345	75,494	(13,517,730)	
Fire	12,512,512	912,526	438,709	-	(11,161,277)	
General Services	5,324,831	1,226,952	358,258	640,828	(3,098,793)	
Recreation	2,325,250	-	-	-	(2,325,250)	
Code Enforcement and Economic Developmen	9,817,626	56,017	8,225,557	-	(1,536,052)	
Parking Garage	727,419	1,059,369	-	-	331,950	
Interest on Long-Term Deb	1,919,888	-	-	-	(1,919,888)	
Total Governmental Activities:	54,891,874	4,842,167	9,652,316	716,322	(39,681,069)	
Total Primary Government	\$ 54,891,874	\$ 4,842,167	\$ 9,652,316	\$ 716,322	(39,681,069)	
Component Unit						
Devou Properties, Inc	\$ 389,886	\$ 315,527	\$ -	\$ -		\$ (74,359)
General revenues						
Taxes						
Real Property Taxes, Levied for General Purpose					5,913,401	-
Personal Property Taxes, Levied for General Purpose					589,401	-
Public Service Taxes					2,092,335	-
Taxes, Levied for Bank Deposits					62,232	-
Insurance Premium Taxes					5,324,223	-
Payroll Taxes					21,263,831	-
Net Profits Taxes					2,554,150	-
Other Taxes					490,889	-
Investment Earnings					310,239	22,211
Commissions					-	415,395
Miscellaneous					1,710,802	12,690
Special Item - Gain on Sale of Capital Asset					576,242	-
Total General Revenues and Special Item					40,887,745	450,296
Change in Net Assets					1,206,676	375,937
Net Assets June 30, 2005, as Restated					44,708,539	60,237
Net Assets June 30, 2006					\$ 45,915,215	\$ 436,174

See accompanying notes

CITY OF COVINGTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>General Fund</u>	<u>Community Development Block Grant</u>	<u>HOME Program</u>	<u>Housing Voucher Program</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and Cash Equivalents	\$ -	\$ -	\$ 53,562	\$ 1,032,688	\$ 1,235,465	\$ 2,321,715
Receivables						
Taxes	710,453	-	-	-	36,221	746,674
Intergovernmental	52,540	328,924	14,458	-	36,497	432,419
Notes	-	8,591,841	4,360,847	-	2,767,260	15,719,948
Accounts	6,303,481	-	-	20,690	46,762	6,370,933
Inventories	130,215	-	-	-	-	130,215
Due from Other Funds	1,716,693	28,201	6,005	-	1,738,909	3,489,808
Prepaid Expenses	122,892	-	-	-	-	122,892
Total Assets	<u>\$ 9,036,274</u>	<u>\$ 8,948,966</u>	<u>\$ 4,434,872</u>	<u>\$ 1,053,378</u>	<u>\$ 5,861,114</u>	<u>\$ 29,334,604</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable and Bank Overdrafts	\$ 1,139,672	\$ 105,739	\$ 1,871	\$ 42,572	\$ 32,987	\$ 1,322,841
Accrued Liabilities	1,025,045	-	-	-	-	1,025,045
Due to Other Funds	3,590,231	251,386	6,524	28,636	1,493,796	5,370,573
Deferred Revenue	2,607,921	8,591,841	4,360,847	491,299	2,772,760	18,824,668
Total Liabilities	<u>8,362,869</u>	<u>8,948,966</u>	<u>4,369,242</u>	<u>562,507</u>	<u>4,299,543</u>	<u>26,543,127</u>
Fund Balances						
Reserved for:						
Prepaid Expenses	122,892	-	-	-	-	122,892
Unreserved						
Undesignated, Reported In						
General Fund	550,513	-	-	-	-	550,513
Special Revenue Funds	-	-	65,630	490,871	253,852	810,353
Capital Projects Funds	-	-	-	-	-	-
Debt Service Funds	-	-	-	-	1,307,719	1,307,719
Total Fund Balances	<u>673,405</u>	<u>-</u>	<u>65,630</u>	<u>490,871</u>	<u>1,561,571</u>	<u>2,791,477</u>
Total Liabilities and Fund Balances	<u>\$ 9,036,274</u>	<u>\$ 8,948,966</u>	<u>\$ 4,434,872</u>	<u>\$ 1,053,378</u>	<u>\$ 5,861,114</u>	<u>\$ 29,334,604</u>

See accompanying notes

CITY OF COVINGTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2006

Total Fund Balance - Governmental Fund: \$ 2,791,477

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	\$ 162,965,571	
Accumulated Depreciation	(95,090,082)	
	<u>67,875,489</u>	67,875,489

Certain other long-term assets are not available to pay current period expenditures and are therefore deferred in the funds. 18,260,129

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 Equivalent:	787,402	
Accounts Receivable	11,403	
Due From Other Funds	1,345,562	
Accounts Payable	(8,425)	
Estimated Liability for Claims	(497,916)	
Due to Other Funds	(710,901)	
	<u>927,125</u>	927,125

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. 415,494

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. (173,340)

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	27,907,005	
Capital Lease Obligations Payable	15,231,290	
Compensated Absences Payable	1,042,864	
	<u>(44,181,159)</u>	(44,181,159)

Total Net Assets - Governmental Activities: **\$ 45,915,215**

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANC
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	<u>General Fund</u>	<u>Community Development Block Grant</u>	<u>HOME Program</u>	<u>Housing Voucher Program</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 12,976,164	\$ -	\$ -	\$ -	\$ 490,549	\$ 13,466,713
Licenses and Permits	24,123,130	-	-	-	-	24,123,130
Intergovernmental	447,626	2,355,286	231,982	5,623,071	1,687,592	10,345,557
Charges for Services	3,686,541	-	-	-	442,180	4,128,721
Fines and Forfeitures	603,286	-	-	-	-	603,286
Investment Earnings	91,506	-	2,550	41,309	143,166	278,531
Miscellaneous	341,226	637,782	390,365	13,395	351,466	1,734,234
Total Revenues	<u>42,269,479</u>	<u>2,993,068</u>	<u>624,897</u>	<u>5,677,775</u>	<u>3,114,953</u>	<u>54,680,172</u>
Expenditures						
Current						
General Government	2,867,294	-	-	-	670,456	3,537,750
Police	13,617,185	-	-	-	492,643	14,109,828
Fire	11,729,356	-	-	-	438,709	12,168,065
General Services	5,180,111	-	-	-	-	5,180,111
Recreation	2,289,413	-	-	-	-	2,289,413
Code Enforcement and						
Economic Development	1,282,046	1,326,414	460,168	5,722,784	1,041,469	9,832,881
Parking Garages	727,419	-	-	-	-	727,419
Debt Service						
Principal	623,191	67,000	-	-	2,073,688	2,763,879
Interest and Other Charges	259,883	40,065	-	-	1,665,438	1,965,386
Capital Outlay	15,490	1,282,989	150,827	11,610	1,240,299	2,701,215
Total Expenditures	<u>38,591,388</u>	<u>2,716,468</u>	<u>610,995</u>	<u>5,734,394</u>	<u>7,622,702</u>	<u>55,275,947</u>
Excess (Deficit) of Revenues Over Expenditures	<u>3,678,091</u>	<u>276,600</u>	<u>13,902</u>	<u>(56,619)</u>	<u>(4,507,749)</u>	<u>(595,775)</u>
Other Financing Sources (Uses)						
Transfers In	1,224,600	-	-	-	4,782,233	6,006,833
Transfers Out	(4,464,413)	(276,600)	-	-	(1,511,019)	(6,252,032)
Total Other Financing Sources (Uses)	<u>(3,239,813)</u>	<u>(276,600)</u>	<u>-</u>	<u>-</u>	<u>3,271,214</u>	<u>(245,199)</u>
Special Item						
Proceeds from Sale of Capital Assets	-	-	-	-	596,202	596,202
Net Change in Fund Balances	438,278	-	13,902	(56,619)	(640,333)	(244,772)
Fund Balance July 1, 2005	235,127	-	51,728	547,490	2,201,904	3,036,249
Fund Balance June 30, 2006	<u>\$ 673,405</u>	<u>\$ -</u>	<u>\$ 65,630</u>	<u>\$ 490,871</u>	<u>\$ 1,561,571</u>	<u>\$ 2,791,477</u>

See accompanying notes

CITY OF COVINGTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURE
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Change in Fund Balances - Total Governmental Fund \$ (244,772)

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	\$ (4,630,415)	
Capital Outlays	<u>2,300,196</u>	(2,330,219)

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 (19,959)

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. 810,679

Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 2,763,879

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest not reflected on Governmental funds 92,312

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. 107,067

Costs related to the issuance of new bonds and deferred refunding costs are reported as an other use of funds in the governmental funds financial statements. However, on the government-wide statement of net assets these costs are capitalized and reported as a deferred charge, and subsequently amortized over the life of the related bonds. This is the amount of current year amortization expense. (46,817)

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. 74,506

Total Change in Net Assets - Governmental Activities **\$ 1,206,676**

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 787,402
Accounts Receivable	11,403
Due from Other Funds	<u>1,345,562</u>
Total Assets	<u>2,144,367</u>
Liabilities	
Current Liabilities	
Accounts Payable	8,425
Estimated Liability for Claims	497,916
Due to Other Funds	<u>710,901</u>
Total Liabilities	<u>1,217,242</u>
Net Assets	
Unrestricted	\$ <u><u>927,125</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, 2006

	Governmental Activities <hr/> Internal Service Funds <hr/>
Operating Revenues	
Insurance Premium Payments	\$ 5,168,376
Other Operating Revenues	<u>22,590</u>
Total Operating Revenues	<u>5,190,966</u>
Operating Expenses	
Contractual Services	572,795
Claims and Judgments	<u>4,820,577</u>
Total Operating Expenses	<u>5,393,372</u>
Operating Loss	(202,406)
Non-Operating Revenues	
Investment Income	<u>31,712</u>
Loss Before Transfers	(170,694)
Transfers In	<u>245,200</u>
Change in Net Assets	74,506
Net Assets July 1, 2005	<u>852,619</u>
Net Assets June 30, 2006	<u><u>\$ 927,125</u></u>

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Governmental Activities <hr/> Internal Service Funds <hr/>
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 5,647,339
Cash Received from Other Activities	22,590
Cash Paid for Claims	<u>(5,389,776)</u>
Net Cash Provided by Operating Activities	280,153
Cash Flows from Non-Capital Financing Activities	
Transfer from Other Funds	245,200
Cash Flows from Investing Activities	
Interest Income	<u>31,712</u>
Net Change in Cash	557,065
Cash and Cash Equivalents July 1, 2005	<u>230,337</u>
Cash and Cash Equivalents June 30, 2006	<u><u>\$ 787,402</u></u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating Loss	\$ (202,406)
Change in Assets and Liabilities	
Due from Other Funds	1,267,963
Accounts Payable	3,596
Due to Other Funds	<u>(789,000)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 280,153</u></u>

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Fiduciary Funds
Assets	
Cash and Cash Equivalents	\$ 60,990
Investments - Mutual Funds	20,128,086
Due From Other Funds	1,400,000
Notes Receivable	189,653
Total Assets	21,778,729
Liabilities	
Accounts Payable	1,017
Due to Other Funds	153,897
Total Liabilities	154,914
Net Assets	
Held in Trust for Pension Benefits	\$ 21,623,815

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2006

	<u>Fiduciary Funds</u>
Additions	
Contributions	
Employee Contributions	\$ 8,248
Miscellaneous	2,550
Impounding Lot	<u>142,034</u>
Total Revenues	<u>152,832</u>
Investment Earnings	
Interest and Dividends	836,077
Net Appreciation in Fair Value of Investments	<u>1,233,384</u>
Total Investment Earnings	<u>2,069,461</u>
Total Additions	<u>2,222,293</u>
Deductions	
Benefit Payments	2,593,622
Administration	77,814
Impounding Lot	<u>18,164</u>
Total Deductions	<u>2,689,600</u>
Change in Net Assets	(467,307)
Net Assets July 1, 2005	<u>22,091,122</u>
Net Assets June 30, 2006	<u><u>\$ 21,623,815</u></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, 2005 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. 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 an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity:

Cash and Cash Equivalents

Cash and cash equivalents including 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
- Banker's Acceptances
- Commercial Paper
- Bonds of Other State or Local Governments
- Mutual Funds

Investments

In accordance with Government Accounting Standards Board Statement No. 31, investments held at June 30, 2006 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 Statement No. 31.

Property Tax Receivable

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

Notes Receivable

Notes receivable are carried at their unpaid principal balance.

Short-Term Interfund Receivables/Payables

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

Inventories

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

General capital assets are those assets not specifically related to activities reported in the 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. 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 fixed asset class is as follows:

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

Compensated Absences

Vested or accumulated vacation leave that 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 GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated to be taken as "terminal leave" prior to retirement.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Revenues, Expenditures and Expenses:

Operating Revenues and Expenses

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

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities.

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

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

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

Interfund Transactions

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

Use of Estimates

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

NOTE 2 – PRIOR PERIOD ADJUSTMENT

Net assets on the government-wide statement of net assets has been adjusted to correct an error in recording capital asset additions and disposals made in prior periods. The cost of certain capital assets was originally included twice on the capital asset register.

As a result of correcting the error in capital assets, net assets as of July 1, 2005 is reconciled as follows:

	<u>Governmental Activities</u>
Net Assets, July 1, 2005, as Previously Reported	\$ 45,025,331
Error in Recording Capital Assets	<u>(316,792)</u>
Net Assets, July 1, 2005, as Restated	<u>\$ 44,708,539</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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.

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 3 – 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, 2006:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General	\$ 37,809,165	\$ 38,591,388	\$ 782,223
Housing Voucher Program	5,691,807	5,734,394	42,587
Newport Steel UDAG	302,000	746,789	444,789
Police and Fire Incentive	840,000	874,417	34,417
Medical and Dental Insurance	<u>5,000,000</u>	<u>5,192,704</u>	<u>192,704</u>
Totals	<u>\$ 49,642,972</u>	<u>\$ 51,139,692</u>	<u>\$ 1,496,720</u>

Deficit Fund Balance

The following fund had a deficit fund balance at June 30, 2006:

2001 Projects	<u>\$ 1,053,028</u>
---------------	---------------------

NOTE 4 – 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, 2006, \$100,000 of the City's deposits are insured by the FDIC, and \$3,069,973 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, 2006, the City did not have any deposits in excess of insured and/or collateralized amounts.

As of December 31, 2005, Devou Properties, Inc. (a component unit of the City) had \$657,000 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, 2006, all of the City's investments were covered by SIPC coverage or Excess SIPC coverage provided by the institution, and are therefore not subject to custodial credit risk.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will be able to recover the value of its cash, investments or collateral securities that are in the possession of an outside party. The City has no formal policy on custodial credit risk. As of June 30, 2006, the City had \$3,069,973 of deposits collateralized with securities held by the pledging institution's trust department but not in the City's name.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Additions	Retirements/ Deletions	Balance End of Year
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated				
Land	\$ 13,738,073	\$ 25,842	\$ 19,960	\$ 13,743,955
Land Improvements	1,159,362	-	-	1,159,362
Construction in Progress	295,402	-	-	295,402
Total Capital Assets Not Being Depreciated	<u>15,192,837</u>	<u>25,842</u>	<u>19,960</u>	<u>15,198,719</u>
Depreciable Capital Assets				
Buildings	22,794,511	631,227	70,765	23,354,973
Building Improvements	9,586,501	13,338	1,537,829	8,062,010
Infrastructure	102,115,961	1,348,589	-	103,464,550
Machinery and Equipment	4,605,490	81,230	31,567	4,655,153
Vehicles	8,030,196	199,970	-	8,230,166
Total Depreciable Capital Assets	<u>147,132,659</u>	<u>2,274,354</u>	<u>1,640,161</u>	<u>147,766,852</u>
Less: Accumulated Depreciation				
Buildings	7,941,066	573,798	1,537,829	6,977,035
Building Improvements	6,974,984	293,213	70,765	7,197,432
Infrastructure	66,363,084	2,907,113	-	69,270,197
Machinery and Equipment	3,715,125	312,882	31,567	3,996,440
Vehicles	7,105,569	543,409	-	7,648,978
Total Accumulated Depreciation	<u>92,099,828</u>	<u>4,630,415</u>	<u>1,640,161</u>	<u>95,090,082</u>
Depreciable Capital Assets, Net	<u>55,032,831</u>	<u>(2,356,061)</u>	<u>-</u>	<u>52,676,770</u>
Total Governmental Activities Capital Assets - Net	<u>\$ 70,225,668</u>	<u>\$ (2,330,219)</u>	<u>\$ 19,960</u>	<u>\$ 67,875,489</u>
<u>Component Unit</u>				
Devou Properties, Inc.				
Depreciable Capital Assets				
Property and Equipment	\$ 15,908	\$ -	\$ -	\$ 15,908
Less: Accumulated Depreciation Property and Equipment	<u>1,966</u>	<u>2,491</u>	<u>-</u>	<u>4,457</u>
Total Component Unit Capital Assets - Net	<u>\$ 13,942</u>	<u>\$ (2,491)</u>	<u>\$ -</u>	<u>\$ 11,451</u>

*Depreciation was charged to functions as follows:

Governmental Activities	
Administration	\$ 3,747,969
Police	372,931
Fire	332,757
General Services	144,721
Parks and Recreation	<u>32,037</u>
Total Governmental Activities Depreciation Expense	<u>\$ 4,630,415</u>

NOTE 6 - INTERFUND ACTIVITY

Interfund receivables/payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables were as follows at June 30, 2006:

Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Improvement Fund	\$ 46,762
	HOME Program	6,524
	Police and Fire Incentive Pay	41,900
	Police and Firemen's Pension	153,897
	Housing Voucher	28,636
	CDBG	244,936
	Arts District	134,453
	2001 Projects	1,053,028
	City Hall Operations	6,557
		<u>1,716,693</u>
CAD System	General	9,729
CDBG	Newport Steel	28,201
Liability Self Insurance	General	195,562
Newport Steel	General	1,181
Employees' Retirement	General	1,400,000
Investor Program	Arts District	2,670
HOME Program	CDBG	6,005
Sewer Maintenance	General	1,194,094
Medical Self Insurance	General	1,150,000
Arts District	CDBG	445
Arts District	Investor Program	178,000
Arts District	Newport Steel	2,225
Working Capital Reserve	General	335,604
501 Main Street Operating	General	14,961

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.

Transfer From	Transfer To	Amount
General	Debt Service	\$ 2,487,947
CAD	General	450,000
CDBG	General	276,600
General	City Hall Operations	38,499
Working Capital Reserve	Covington Landing	544,702
Newport Steel UDAG	General	498,000
Debt Service - 1995 Bonds	Debt Service - 2005 Bonds	18,317
General	501 Main Street Operations	53,374
General	Covington Landing	91,435
General	Devou Park Maintenance	10,000
General	Liability Self Insurance	245,200
General	2001 Projects	880,788
General	Capital Improvement	326,566
General	Working Capital Reserve	330,604
		<u>\$ 6,252,032</u>

NOTE 7 – SHORT TERM DEBT

On July 1, 2005 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 3.25% and matured on June 30, 2006. Repayment was made from the general fund.

During the year ended June 30, 2006, the following changes occurred in the City's short term debt:

<u>Debt Issue</u>	<u>Balance July 1, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2006</u>
TRAN	\$ <u> -</u>	\$ <u>3,500,000</u>	\$ <u>3,500,000</u>	\$ <u> -</u>

NOTE 8 – 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 (title transfers at the end of the lease terms) 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, 2006.

	<u>Capital Assets</u>
Buildings	\$ 8,427,712
Building Improvements	510,836
Land	5,667,042
Infrastructure	989,002
Vehicles	<u>585,566</u>
Total Cost	16,180,158
Accumulated Depreciation	<u>(1,127,929)</u>
Net Book Value	<u>\$ 15,052,229</u>

NOTE 8 – 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, 2006.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 2,689,656
2008	1,157,523
2009	1,045,530
2010	1,064,400
2011	1,070,117
2012-2016	5,478,190
2017-2021	5,154,058
2022-2026	<u>1,666,013</u>
Total Minimum Lease Payments	19,325,487
Less: Amount Representing Interest	<u>(4,094,197)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 15,231,290</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, 2006 is as follows:

Buildings	<u>\$ 1,500,000</u>
-----------	---------------------

NOTE 8 – GENERAL LONG-TERM DEBT (Continued)

Mortgage Bonds and Notes Payable

The following schedule summarizes outstanding long-term mortgage bonds and notes payable outstanding at June 30, 2006.

	Interest Rates	Maturity Dates June 30,	Amounts	
			Issued	Outstanding
Mortgage Bonds				
1989 Series A	11.25%	2010	\$ 587,737	\$ 189,652
1990 Series A	6.20%	2010	460,000	26,492
2003 Series	2.00-4.50%	2018	4,996,000	4,371,000
KY Infrastructure Auth.	4.55%	2014	460,327	222,144
Sanitation District	0.00%	2009	3,059,056	917,717
HUD 108	5.13%	2015	1,000,000	665,000
2004 Series	Variable	2030	14,410,000	14,110,000
2005 Series	3.00-3.30%	2013	7,405,000	7,405,000

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 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, 2006 are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2007	\$ 2,019,398	\$ 1,067,275	\$ 3,086,673
2008	2,097,657	1,005,527	3,103,184
2009	2,168,240	939,614	3,107,854
2010	1,851,745	873,085	2,724,830
2011	1,917,505	807,632	2,725,137
2012-2016	6,847,460	3,080,785	9,928,245
2017-2021	3,730,000	2,019,362	5,749,362
2022-2026	3,640,000	1,248,876	4,888,876
2027-2031	<u>3,635,000</u>	<u>338,435</u>	<u>3,973,435</u>
Totals	<u>\$ 27,907,005</u>	<u>\$ 11,380,591</u>	<u>\$ 39,287,596</u>

NOTE 8 - GENERAL LONG-TERM DEBT (Continued)

Changes in Noncurrent Liabilities

During the year ended June 30, 2006, the following changes occurred in noncurrent liabilities:

Debt Issue	Balance July 1, 2005	Additions of New Debt	Repayments and Defeased	Balance June 30, 2006	Amounts Expected to be Paid in One Year
Mortgage Bonds and Notes					
1989 Series A	\$ 239,290	\$ -	\$ 49,638	\$ 189,652	\$ 55,520
1990 Series A	64,961	-	38,469	26,492	26,492
1995 Series A	995,000	-	995,000	-	-
2003 Refunding	4,672,000	-	301,000	4,371,000	304,000
HUD 108	732,000	-	67,000	665,000	67,000
Sanitation District	1,223,626	-	305,909	917,717	305,905
KY Infrastructure Auth.	246,504	-	24,360	222,144	25,481
2005 Refunding Bonds	7,405,000	-	-	7,405,000	920,000
2004 Series A	14,410,000	-	300,000	14,110,000	315,000
Total Mortgage Bonds and Notes	<u>29,988,381</u>	<u>-</u>	<u>2,081,376</u>	<u>27,907,005</u>	<u>2,019,398</u>
Capital Lease Obligations Infrastructure/Equipment	<u>15,913,794</u>	<u>-</u>	<u>682,504</u>	<u>15,231,290</u>	<u>2,208,586</u>
Compensated Absences	<u>1,149,931</u>	<u>1,177,746</u>	<u>1,284,813</u>	<u>1,042,864</u>	<u>1,042,864</u>
Total Noncurrent Liabilities	<u>\$ 47,052,106</u>	<u>\$ 1,177,746</u>	<u>\$ 4,048,693</u>	<u>\$ 44,181,159</u>	<u>\$ 5,270,848</u>

Compensated absences will be liquidated by the City's general fund.

NOTE 8 – GENERAL LONG-TERM DEBT (Continued)**Defeased Bonds**

In prior years, the City issued refunding bonds to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The City has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to ensure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call date of August 1, 2006. As of June 30, 2006, \$8,665,000 of bonds outstanding is considered defeased.

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.

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 \$821,043 as of June 30, 2006. 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, 2006, 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 Aa1 by Moody's Investors Service as of June 30, 2006.

Swap Payments and Associated Debt. For the year ended June 30, 2006, the City paid \$55,300 on the swap agreement. Using rates as of June 30, 2006, 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		
2007	\$ 315,000	\$ 630,653	\$ 5,125	\$ 950,778
2008	330,000	616,076	4,996	951,072
2009	350,000	600,708	4,860	955,568
2010	365,000	584,549	4,717	954,266
2011	385,000	567,599	4,567	957,166
2012-2016	2,235,000	2,551,653	16,607	4,803,260
2017-2021	2,855,000	1,979,873	-	4,834,873
2022-2026	3,640,000	1,248,876	-	4,888,876
2027-2031	<u>3,635,000</u>	<u>338,435</u>	<u>-</u>	<u>3,973,435</u>
Totals	<u>\$ 14,110,000</u>	<u>\$ 9,118,422</u>	<u>\$ 40,872</u>	<u>\$ 23,269,294</u>

NOTE 8 – GENERAL LONG-TERM DEBT (Continued)

Conduit Debt Obligations

During 2006, the City issued Industrial Revenue Bonds totaling \$64,000,000 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, the 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, 2006, there were two series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$64 million.

NOTE 9 – 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 \$911,230 at June 30, 2006 and is a designation of the Liability Self Insurance Fund retained earnings. The claims liability reported in the Fund at June 30, 2006, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, 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, 2004</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2005</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2006</u>
\$ -	\$ 274,220	\$ 274,220	\$ -	\$ 30,752	\$ 30,752	\$ -

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 \$75,000 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 \$497,915 reported in the fund at June 30, 2006, is based upon the requirements of Governmental Accounting Standards Board Statement No. 10, as explained above. Changes in the fund's claims liability amount during the year ended June 30, 2006 were as follows:

<u>July 1, 2004</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2005</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2006</u>
\$ 845,674	\$ 3,637,569	\$ 3,985,327	\$ 497,916	\$ 4,789,825	\$ 4,789,825	\$ 497,916

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 10 – EMPLOYEE RETIREMENT PLAN

The City maintains two single employer, defined benefit pension plans. The Employees' Pension Plan and the Police and Firemen's Pension Plan.

Summary of Significant Accounting Policies

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

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

Plan Descriptions and Contribution Information

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

Group	Employees' July 1, 2004	Police and Firemen's July 1, 2006
Retirees and Beneficiaries Currently Receiving Benefits	80	103
Active Employees – Fully Vested	2	-
	82	103

Employees' Pension Plan

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

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

NOTE 10 – EMPLOYEE RETIREMENT PLAN (Continued)

Police and Firemen’s Pension Plan

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

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

Employer Contributions

Year Ended June 30,	Employees’ Annual Required Contribution	Contributions Made	Percentage Contributed	Firemen’s Annual Required Contribution	Contributions Made	Percentage Contributed
2006	\$ -	\$ -	- %	\$ 85,000	\$ 142,034	164 %
2005	-	-	-	85,000	139,302	167
2004	466,378	499,813	107	250,000	250,000	100

As of June 30, 2006, the City estimated it did not have a net pension obligation in the Employees’ Pension Plan since the City issued the 2004 Pension Obligation Bonds in order to fund the unfunded AAL. As of June 30, 2006, the City had a net pension obligation in the Police & Firemen’s Pension Plan in the amount of \$418,532. The City’s annual required contribution to the Plan is \$85,000, which is fully funded from impounding lot income. Based on the City’s annual required contribution, the City expects to payoff the unfunded accrued liability in 7 years, calculated at the Plan’s expected rate of return on Plan assets of 7.5%. No additional contributions were required or made during 2006.

Funding Progress

Actuarial Valuation Date June 30,	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]
Employees’						
2004	\$ 2,905,506	\$ 7,835,060	\$ 4,929,554	37%	\$ 110,524	4460%
2002	2,702,342	7,234,652	4,532,310	37	145,388	3117
1999	2,938,618	7,039,569	4,100,951	42	441,616	928
Police & Firemen’s						
2006	\$15,157,005	\$15,575,537	\$ 418,532	97%	\$ N/A	N/A
2005	15,456,666	15,991,907	535,241	97	N/A	N/A
2004	7,132,220	16,894,456	9,762,236	42	N/A	N/A

NOTE 10 – EMPLOYEE RETIREMENT PLAN (Continued)

The information presented in this note was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>Employees'</u>	<u>Police and Firemen's</u>
Valuation Date	July 1, 2004	July 1, 2006
Actuarial Cost Method	Entry Age	Unit Credit
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	10 Years	10 Years
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Investment Rate of Return *	7.5%	7.5%
Projected Salary Increases*	6%	N/A
* Includes Inflation at	3%	3%
Cost-of-Living Adjustments	3%	3%

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, 2006, plan members were required to contribute 5% 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 preceding 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, 2006, participating employers contributed 10.98% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

NOTE 10 – EMPLOYEE RETIREMENT PLAN (Continued)

Hazardous Contributions – For the year ended June 30, 2006, plan members were required to contribute 8% of their annual creditable compensation. The state 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, 2006, participating employers contributed 25.01% of each employee’s creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Required Contribution</u>	<u>Actual Percentage Contributed</u>
2006	\$ 4,717,554	100%
2005	\$ 4,086,939	100%
2004	\$ 2,962,886	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.

Component Unit

Devou Properties, Inc. has established a simple IRA retirement plan. The Organization matches 3% of employee compensation. The Organization contributed \$2,596 to the plan for the year ended December 31, 2005.

NOTE 11 – SPECIAL ITEM

During the year ended June 30, 2006, the City sold some major capital assets, with proceeds from the sale totaling \$596,202. Proceeds from these transactions have been treated as a special item in the Governmental Funds.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Real Property	\$ 4,950,000	\$ 4,790,203	\$ 4,907,973	\$ 117,770
Personal Property	525,000	527,170	589,401	62,231
Bank Deposit	75,000	62,231	62,232	1
Franchise	2,040,000	1,726,757	2,092,335	365,578
Insurance Premium	4,900,000	5,612,521	5,324,223	(288,298)
Licenses and Permits				
Payroll License Fees	20,188,000	20,813,992	21,263,831	449,839
Net Profits License Fees	2,350,000	2,400,000	2,554,150	154,150
Night Club Permits	140,000	135,000	135,000	-
Liquor and Beer Licenses	160,000	150,000	144,466	(5,534)
Building and Zoning	78,000	17,037	20,011	2,974
Dog Licenses	6,000	8,000	5,672	(2,328)
Intergovernmental	1,864,240	320,516	447,626	127,110
Fines and Forfeitures	565,000	604,311	603,286	(1,025)
Charges for Services				
Waste Fees	1,148,450	1,148,450	1,226,952	78,502
Parking	1,285,000	1,155,130	1,059,369	(95,761)
Squad Runs	1,100,000	908,778	912,526	3,748
Rental Property	365,000	332,272	376,099	43,827
Other	92,000	100,608	111,595	10,987
Interest	35,000	43,362	91,506	48,144
Miscellaneous	325,000	313,208	341,226	28,018
Total Revenues	42,191,690	41,169,546	42,269,479	1,099,933
Expenditures				
General Government				
Administration Department				
Payroll	590,795	523,216	532,777	(9,561)
Employee Benefits	238,831	234,711	241,164	(6,453)
Contractual Services	235,550	213,323	483,569	(270,246)
Materials and Supplies	46,950	49,665	41,578	8,087
Miscellaneous	-	742	780	(38)
Total Administration Department	1,112,126	1,021,657	1,299,868	(278,211)
Legal Department				
Payroll	280,228	163,288	165,630	(2,342)
Employee Benefits	100,293	76,208	61,104	15,104
Contractual Services	22,130	57,940	53,513	4,427
Materials and Supplies	7,102	8,607	8,292	315
Miscellaneous	-	-	-	-
Total Legal Department	409,753	306,043	288,539	17,504
Finance Department				
Payroll	582,949	530,199	543,232	(13,033)
Employee Benefits	244,508	239,098	263,185	(24,087)
Contractual Services	360,130	455,075	444,397	10,678
Materials and Supplies	24,950	35,320	28,073	7,247
Miscellaneous	-	-	-	-
Total Finance Department	1,212,537	1,259,692	1,278,887	(19,195)
Total General Government	2,734,416	2,587,392	2,867,294	(279,902)

(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, 2006
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Police				
Payroll	\$ 7,977,493	\$ 7,742,703	\$ 7,898,806	\$ (156,103)
Employee Benefits	4,471,193	4,477,523	4,487,713	(10,190)
Contractual Services	773,730	838,847	832,309	6,538
Materials and Supplies	393,210	511,705	398,357	113,348
Miscellaneous	-	-	-	-
Total Police	<u>13,615,626</u>	<u>13,570,778</u>	<u>13,617,185</u>	<u>(46,407)</u>
Fire				
Payroll	6,857,502	7,215,297	7,118,498	96,799
Employee Benefits	3,851,722	3,983,560	4,011,917	(28,357)
Contractual Services	486,841	318,313	323,974	(5,661)
Materials and Supplies	334,802	301,802	274,967	26,835
Miscellaneous	-	-	-	-
Total Fire	<u>11,530,867</u>	<u>11,818,972</u>	<u>11,729,356</u>	<u>89,616</u>
General Services				
Payroll	1,824,632	1,668,836	1,690,041	(21,205)
Employee Benefits	887,719	866,138	934,079	(67,941)
Contractual Services	1,958,626	1,935,068	1,941,846	(6,778)
Materials and Supplies	722,075	637,670	613,877	23,793
Miscellaneous	-	300	268	32
Total General Services	<u>5,393,052</u>	<u>5,108,012</u>	<u>5,180,111</u>	<u>(72,099)</u>
Recreation				
Payroll	1,261,204	1,197,764	1,139,327	58,437
Employee Benefits	534,194	489,134	534,035	(44,901)
Contractual Services	454,825	425,700	352,953	72,747
Materials and Supplies	287,200	266,203	263,098	3,105
Miscellaneous	10,000	-	-	-
Total Recreation	<u>2,547,423</u>	<u>2,378,801</u>	<u>2,289,413</u>	<u>89,388</u>
Code Enforcement and Economic Development				
Code Enforcement				
Payroll	451,695	429,695	431,635	(1,940)
Employee Benefits	222,696	197,567	224,384	(26,817)
Contractual Services	113,900	128,900	132,507	(3,607)
Materials and Supplies	8,500	12,700	10,543	2,157
Miscellaneous	-	-	-	-
Total Code Enforcement	<u>796,791</u>	<u>768,862</u>	<u>799,069</u>	<u>(30,207)</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, 2006
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Economic Development				
Payroll	\$ 296,140	\$ 298,140	\$ 238,616	\$ 59,524
Employee Benefits	114,320	114,590	90,458	24,132
Contractual Services	21,350	79,799	143,534	(63,735)
Materials and Supplies	8,150	27,750	11,348	16,402
Miscellaneous	-	-	(979)	979
Total Economic Development	<u>439,960</u>	<u>520,279</u>	<u>482,977</u>	<u>37,302</u>
Total Code Enforcement and Economic Development	<u>1,236,751</u>	<u>1,289,141</u>	<u>1,282,046</u>	<u>7,095</u>
Parking Garages				
Contractual Services	670,692	629,622	716,671	(87,049)
Materials and Supplies	7,400	11,450	10,748	702
Total Parking Garages	<u>678,092</u>	<u>641,072</u>	<u>727,419</u>	<u>(86,347)</u>
Capital Outlay				
General Government	-	-	-	-
Police	270,200	-	-	-
Fire	274,000	-	11,690	(11,690)
General Services	1,123,000	-	-	-
Housing	436,240	-	-	-
Recreation	-	-	3,800	(3,800)
Total Capital Outlay	<u>2,103,440</u>	<u>-</u>	<u>15,490</u>	<u>(15,490)</u>
Debt Service				
Principal	95,830	256,600	623,191	(366,591)
Interest	14,000	158,397	259,883	(101,486)
Total Debt Service	<u>109,830</u>	<u>414,997</u>	<u>883,074</u>	<u>(468,077)</u>
Total Expenditures	<u>39,949,497</u>	<u>37,809,165</u>	<u>38,591,388</u>	<u>(782,223)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>2,242,193</u>	<u>3,360,381</u>	<u>3,678,091</u>	<u>317,710</u>
Other Financing Sources (Uses)				
Transfers In	1,230,000	1,224,600	1,224,600	-
Proceeds from Capital Leases	309,000	-	-	-
Transfers Out	(3,781,193)	(4,404,868)	(4,464,413)	(59,545)
Total Other Financing Sources (Uses)	<u>(2,242,193)</u>	<u>(3,180,268)</u>	<u>(3,239,813)</u>	<u>(59,545)</u>
Net Change in Fund Balance	-	180,113	438,278	258,165
Fund Balance July 1, 2005	<u>-</u>	<u>-</u>	<u>235,127</u>	<u>235,127</u>
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ 180,113</u>	<u>\$ 673,405</u>	<u>\$ 493,292</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 2,050,280	\$ 3,537,349	\$ 2,355,286	\$ (1,182,063)
Miscellaneous	692,553	692,553	637,782	(54,771)
Total Revenues	<u>2,742,833</u>	<u>4,229,902</u>	<u>2,993,068</u>	<u>(1,236,834)</u>
Expenditures				
Code Enforcement and Economic Development	1,668,385	1,668,385	1,326,414	341,971
Debt Service				
Principal	217,000	417,000	67,000	350,000
Interest and Other Charges	75,553	75,553	40,065	35,488
Capital Outlay	487,095	1,774,164	1,282,989	491,175
Total Expenditures	<u>2,448,033</u>	<u>3,935,102</u>	<u>2,716,468</u>	<u>1,218,634</u>
Excess (Deficit) of Revenues Over Expenditures	<u>294,800</u>	<u>294,800</u>	<u>276,600</u>	<u>(18,200)</u>
Other Financing Sources (Uses)				
Transfers Out	(294,800)	(294,800)	(276,600)	18,200
Net Change in Fund Balance	-	-	-	-
Fund Balance July 1, 2005	-	-	-	-
Fund Balance June 30, 2006	<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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 514,347	\$ 514,347	\$ 231,982	\$ (282,365)
Investment Earnings	-	-	2,550	2,550
Miscellaneous	<u>210,000</u>	<u>270,160</u>	<u>390,365</u>	<u>120,205</u>
Total Revenues	<u>724,347</u>	<u>784,507</u>	<u>624,897</u>	<u>(159,610)</u>
Expenditures				
Code Enforcement and Economic Development	724,347	784,507	460,168	324,339
Capital Outlay	<u>-</u>	<u>-</u>	<u>150,827</u>	<u>(150,827)</u>
Total Expenditures	<u>724,347</u>	<u>784,507</u>	<u>610,995</u>	<u>173,512</u>
Net Change in Fund Balance	-	-	13,902	13,902
Fund Balance July 1, 2005	<u>-</u>	<u>-</u>	<u>51,728</u>	<u>51,728</u>
Fund Balance June 30, 2006	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 65,630</u></u>	<u><u>\$ 65,630</u></u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
HOUSING VOUCHER PROGRAM
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 5,691,807	\$ 5,691,807	\$ 5,623,071	\$ (68,736)
Investment Earnings	-	-	41,309	41,309
Miscellaneous	-	-	13,395	13,395
Total Revenues	<u>5,691,807</u>	<u>5,691,807</u>	<u>5,677,775</u>	<u>(14,032)</u>
Expenditures				
Code Enforcement and Economic Development	5,691,807	5,691,807	5,722,784	(30,977)
Capital Outlay	-	-	11,610	(11,610)
Total Expenditures	<u>5,691,807</u>	<u>5,691,807</u>	<u>5,734,394</u>	<u>(42,587)</u>
Net Change in Fund Balance	-	-	(56,619)	(56,619)
Fund Balance July 1, 2005	<u>-</u>	<u>-</u>	<u>547,490</u>	<u>547,490</u>
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 490,871</u>	<u>\$ 490,871</u>

OTHER SUPPLEMENTARY INFORMATION

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

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

SPECIAL REVENUE FUNDS

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

Police and Fire Incentive Pay

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

Newport Steel UDAG

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

Devou Park Maintenance

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

Investor Program

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

City Hall Operations

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

Covington Landing Operations

This fund was established to account for the revenues and expenditures related to operating and maintaining the Covington Landing.

Arts District

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

501 Main Street Operations

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

Police Forfeiture

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

Police Block Grant

This fund was established to account for revenues and expenditures related to the Police Block Grant.

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

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.

KLC Series 2002

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

Working Capital Reserve

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

CAPITAL PROJECTS FUNDS

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

Capital Improvement Fund

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

DEBT SERVICE FUNDS

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

1990 First Mortgage Bonds

The proceeds of this issue were used to finance the construction of the South Covington Firehouse.

1995 First Mortgage Bonds

The proceeds of this issue were used to refund the 1988 First Mortgage bonds.

2004 Pension Obligation Bonds

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

2005 Refunding Bonds

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

Sewer Maintenance Fees

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

**CITY OF COVINGTON, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2006**

	Special Revenue Funds									
	Police and Fire Incentive	Newport Steel UDAG	Devou Park Maintenance	Investor Program	City Hall Operations	Covington Landing Operations	Arts District	501 Main Street Operations	Police Forfeiture	Police Block Grant
Assets										
Cash and Cash Equivalents	\$ 5,403	\$ 105,190	\$ 59,828	\$ 507,823	\$ 21,769	\$ -	\$ -	\$ -	\$ 257,195	\$ 124,911
Receivables										
Taxes	-	-	-	-	-	-	-	-	-	-
Intergovernmental	36,497	-	-	-	-	-	-	-	-	-
Notes	-	1,520,122	-	1,247,138	-	-	-	-	-	-
Accounts	-	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	1,181	-	2,670	-	-	180,670	14,961	-	-
Prepaid Expenses	-	-	-	-	-	-	-	-	-	-
Total Assets	<u>\$ 41,900</u>	<u>\$ 1,626,493</u>	<u>\$ 59,828</u>	<u>\$ 1,757,631</u>	<u>\$ 21,769</u>	<u>\$ -</u>	<u>\$ 180,670</u>	<u>\$ 14,961</u>	<u>\$ 257,195</u>	<u>\$ 124,911</u>
Liabilities and Fund Balances										
Liabilities										
Accounts Payable	\$ -	\$ 3,000	\$ -	\$ -	\$ 15,212	\$ -	\$ -	\$ 14,461	\$ 314	\$ -
Accrued Liabilities	-	-	-	-	-	-	-	-	-	-
Due to Other Funds	41,900	30,426	-	178,000	6,557	-	137,123	-	-	-
Deferred Revenue	-	1,520,122	-	1,247,138	-	-	-	500	-	-
Total Liabilities	<u>41,900</u>	<u>1,553,548</u>	<u>-</u>	<u>1,425,138</u>	<u>21,769</u>	<u>-</u>	<u>137,123</u>	<u>14,961</u>	<u>314</u>	<u>-</u>
Fund Balances										
Reserved for										
Prepaid Expenses	-	-	-	-	-	-	-	-	-	-
Unreserved										
Undesignated, Reported In										
Special Revenue Funds	-	72,945	59,828	332,493	-	-	43,547	-	256,881	124,911
Capital Projects Funds	-	-	-	-	-	-	-	-	-	-
Debt Service Funds	-	-	-	-	-	-	-	-	-	-
Total Fund Balances	<u>-</u>	<u>72,945</u>	<u>59,828</u>	<u>332,493</u>	<u>-</u>	<u>-</u>	<u>43,547</u>	<u>-</u>	<u>256,881</u>	<u>124,911</u>
Total Liabilities and Fund Balances	<u>\$ 41,900</u>	<u>\$ 1,626,493</u>	<u>\$ 59,828</u>	<u>\$ 1,757,631</u>	<u>\$ 21,769</u>	<u>\$ -</u>	<u>\$ 180,670</u>	<u>\$ 14,961</u>	<u>\$ 257,195</u>	<u>\$ 124,911</u>

CITY OF COVINGTON, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2006
(Continued)

	Special Revenue Funds			Capital Projects	Debt Service Funds					Non-Major Governmental Funds
	CAD System	KLC Series 2002	Working Capital Reserve	Capital Improvement Fund	1990 First Mortgage Bonds	1995 First Mortgage Bonds	2004 Pension Obligation	2005 Refunding Bonds	Sewer Maintenance Fees	
Assets										
Cash and Cash Equivalents	\$ 39,721	\$ -	\$ -	\$ -	\$ 33	\$ -	\$ 94,101	\$ 9,668	\$ 9,823	\$ 1,235,465
Receivables										
Taxes	36,221	-	-	-	-	-	-	-	-	36,221
Intergovernmental	-	-	-	-	-	-	-	-	-	36,497
Notes	-	-	-	-	-	-	-	-	-	2,767,260
Accounts	-	-	-	46,762	-	-	-	-	-	46,762
Inventories	-	-	-	-	-	-	-	-	-	-
Due from Other Funds	9,729	-	335,604	-	-	-	-	-	1,194,094	1,738,909
Prepaid Expenses	-	-	-	-	-	-	-	-	-	-
Total Assets	<u>\$ 85,671</u>	<u>\$ -</u>	<u>\$ 335,604</u>	<u>\$ 46,762</u>	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ 94,101</u>	<u>\$ 9,668</u>	<u>\$ 1,203,917</u>	<u>\$ 5,861,114</u>
Liabilities and Fund Balances										
Liabilities										
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,987
Accrued Liabilities	-	-	-	-	-	-	-	-	-	-
Due to Other Funds	-	1,053,028	-	46,762	-	-	-	-	-	1,493,796
Deferred Revenue	-	-	5,000	-	-	-	-	-	-	2,772,760
Total Liabilities	<u>-</u>	<u>1,053,028</u>	<u>5,000</u>	<u>46,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,299,543</u>
Fund Balances										
Reserved for										
Prepaid Expenses	-	-	-	-	-	-	-	-	-	-
Unreserved										
Undesignated, Reported In										
Special Revenue Funds	85,671	(1,053,028)	330,604	-	-	-	-	-	-	253,852
Capital Projects Funds	-	-	-	-	-	-	-	-	-	-
Debt Service Funds	-	-	-	-	33	-	94,101	9,668	1,203,917	1,307,719
Total Fund Balances	<u>85,671</u>	<u>(1,053,028)</u>	<u>330,604</u>	<u>-</u>	<u>33</u>	<u>-</u>	<u>94,101</u>	<u>9,668</u>	<u>1,203,917</u>	<u>1,561,571</u>
Total Liabilities and Fund Balances	<u>\$ 85,671</u>	<u>\$ -</u>	<u>\$ 335,604</u>	<u>\$ 46,762</u>	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ 94,101</u>	<u>\$ 9,668</u>	<u>\$ 1,203,917</u>	<u>\$ 5,861,114</u>

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Special Revenue Funds									
	Police and Fire Incentive	Newport Steel UDAG	Devou Park Maintenance	Investor Program	City Hall Operations	Covington Landing Operations	Arts District	501 Main Street Operations	Police Forfeiture	Police Block Grant
Revenues										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-	-	-	-	-	-	-
Intergovernmental	874,417	15,217	-	-	-	-	-	75,494	81,636	-
Charges for Services	-	-	-	-	266,573	106,276	-	69,331	-	-
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	-
Investment Earnings	-	48,538	2,156	16,652	863	1,217	-	11,170	4,681	-
Miscellaneous	-	267,036	-	84,260	-	70	100	-	-	-
Total Revenues	874,417	330,791	2,156	100,912	267,436	107,563	100	69,331	86,664	86,317
Expenditures										
Current										
General Government	-	-	-	-	281,797	219,740	50,096	38,904	-	-
Police	435,708	-	-	-	-	-	-	48,106	8,829	-
Fire	438,709	-	-	-	-	-	-	-	-	-
General Services	-	-	-	-	-	-	-	-	-	-
Recreation	-	-	-	-	-	-	-	-	-	-
Code Enforcement and Economic Development	-	746,789	-	294,680	-	-	-	-	-	-
Parking Garage	-	-	-	-	-	-	-	-	-	-
Debt Service										
Principal	-	-	-	-	-	3,401	15,000	-	-	-
Interest and Other Charges	-	-	-	-	-	1,889	18,066	68,667	-	-
Capital Outlay	-	-	-	-	13,553	-	3,266	-	16,846	30,499
Total Expenditures	874,417	746,789	-	294,680	295,350	225,030	86,428	107,571	64,952	39,328
Excess (Deficit) of Revenues Over Expenditures	-	(415,998)	2,156	(193,768)	(27,914)	(117,467)	(86,328)	(38,240)	21,712	46,989
Other Financing Sources (Uses)										
Transfers In	-	-	10,000	-	38,499	636,137	-	53,374	-	-
Transfers Out	-	(498,000)	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	(498,000)	10,000	-	38,499	636,137	-	53,374	-	-
Special Item										
Proceeds from Sale of Capital Assets	-	-	-	-	-	51,500	-	-	-	-
Net Change in Fund Balances	-	(913,998)	12,156	(193,768)	10,585	570,170	(86,328)	15,134	21,712	46,989
Fund Balance July 1, 2005	-	986,943	47,672	526,261	(10,585)	(570,170)	129,875	(15,134)	235,169	77,922
Fund Balance June 30, 2006	\$ -	\$ 72,945	\$ 59,828	\$ 332,493	\$ -	\$ -	\$ 43,547	\$ -	\$ 256,881	\$ 124,911

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006
(Continued)

	Special Revenue Funds			Capital Projects	Debt Service Funds					Non-Major Governmental Funds
	CAD System	KLC Series 2002	Working Capital Reserve	Capital Improvement Fund	1990 First Mortgage Bonds	1995 First Mortgage Bonds	2004 Pension Obligation Bonds	2005 Refunding Bonds	Sewer Maintenance Fees	
Revenues										
Taxes	\$ 490,549	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 490,549
Licenses and Permits	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	640,828	-	-	-	-	-	1,687,592
Charges for Services	-	-	-	-	-	-	-	-	-	442,180
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	-
Investment Earnings	2,071	-	-	-	-	37,462	3,325	904	14,127	143,166
Miscellaneous	-	-	-	-	-	-	-	-	-	351,466
Total Revenues	492,620	-	-	640,828	-	37,462	3,325	904	14,127	3,114,953
Expenditures										
Current										
General Government	-	1,341	-	-	-	161	76,940	1,477	-	670,456
Police	-	-	-	-	-	-	-	-	-	492,643
Fire	-	-	-	-	-	-	-	-	-	438,709
General Services	-	-	-	-	-	-	-	-	-	-
Recreation	-	-	-	-	-	-	-	-	-	-
Code Enforcement and Economic Development	-	-	-	-	-	-	-	-	-	1,041,469
Parking Garage	-	-	-	-	-	-	-	-	-	-
Debt Service										
Principal	-	415,909	-	-	38,469	995,000	300,000	-	305,909	2,073,688
Interest and Other Charges	-	464,879	-	-	1,977	293,651	653,830	162,479	-	1,665,438
Capital Outlay	-	208,741	-	967,394	-	-	-	-	-	1,240,299
Total Expenditures	-	1,090,870	-	967,394	40,446	1,288,812	1,030,770	163,956	305,909	7,622,702
Excess (Deficit) of Revenues Over Expenditures	492,620	(1,090,870)	-	(326,566)	(40,446)	(1,251,350)	(1,027,445)	(163,052)	(291,782)	(4,507,749)
Other Financing Sources (Uses)										
Transfers In	-	880,788	330,604	326,566	40,447	1,252,625	1,065,730	147,463	-	4,782,233
Transfers Out	(450,000)	-	(544,702)	-	-	(18,317)	-	-	-	(1,511,019)
Total Other Financing Sources (Uses)	(450,000)	880,788	(214,098)	326,566	40,447	1,234,308	1,065,730	147,463	-	3,271,214
Special Item										
Proceeds from Sale of Capital Assets	-	-	544,702	-	-	-	-	-	-	596,202
Net Change in Fund Balances	42,620	(210,082)	330,604	-	1	(17,042)	38,285	(15,589)	(291,782)	(640,333)
Fund Balance July 1, 2005	43,051	(842,946)	-	-	32	17,042	55,816	25,257	1,495,699	2,201,904
Fund Balance June 30, 2006	\$ 85,671	\$ (1,053,028)	\$ 330,604	\$ -	\$ 33	\$ -	\$ 94,101	\$ 9,668	\$ 1,203,917	\$ 1,561,571

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 840,000	\$ 840,000	\$ 874,417	\$ 34,417
Expenditures				
Police	426,873	426,873	435,708	(8,835)
Fire	413,127	413,127	438,709	(25,582)
Total Expenditures	840,000	840,000	874,417	(34,417)
Net Change in Fund Balance	-	-	-	-
Fund Balance July 1, 2005	-	-	-	-
Fund Balance June 30, 2006	\$ -	\$ -	\$ -	\$ -

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
NEWPORT STEEL UDAG
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 190,000	\$ 190,000	\$ 15,217	\$ (174,783)
Investment Earnings	59,000	59,000	48,538	(10,462)
Miscellaneous	<u>101,000</u>	<u>101,000</u>	<u>267,036</u>	<u>166,036</u>
Total Revenues	<u>350,000</u>	<u>350,000</u>	<u>330,791</u>	<u>(19,209)</u>
Expenditures				
Code Enforcement and Economic Development	<u>302,000</u>	<u>302,000</u>	<u>746,789</u>	<u>(444,789)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>48,000</u>	<u>48,000</u>	<u>(415,998)</u>	<u>(463,998)</u>
Other Financing Sources (Uses)				
Transfers Out	<u>(498,000)</u>	<u>(498,000)</u>	<u>(498,000)</u>	<u>-</u>
Net Change in Fund Balance	(450,000)	(450,000)	(913,998)	(463,998)
Fund Balance July 1, 2005	<u>450,000</u>	<u>450,000</u>	<u>986,943</u>	<u>536,943</u>
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,945</u>	<u>\$ 72,945</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment Earnings	\$ 3,000	\$ 3,000	\$ 2,156	\$ (844)
Expenditures				
General Government	-	-	-	-
Capital Outlay	50,000	50,000	-	50,000
Total Expenditures	50,000	50,000	-	50,000
Excess (Deficit) of Revenues Over Expenditures	(47,000)	(47,000)	2,156	49,156
Other Financing Sources (Uses)				
Transfers In	10,000	10,000	10,000	-
Net Change in Fund Balance	(37,000)	(37,000)	12,156	49,156
Fund Balance July 1, 2005	37,000	37,000	47,672	10,672
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,828</u>	<u>\$ 59,828</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
INVESTOR PROGRAM
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment Earnings	\$ -	\$ -	\$ 16,652	\$ 16,652
Miscellaneous	<u>66,670</u>	<u>66,670</u>	<u>84,260</u>	<u>17,590</u>
Total Revenues	<u>66,670</u>	<u>66,670</u>	<u>100,912</u>	<u>34,242</u>
Expenditures				
Code Enforcement and Economic Development	<u>500,000</u>	<u>500,000</u>	<u>294,680</u>	<u>205,320</u>
Net Change in Fund Balance	(433,330)	(433,330)	(193,768)	239,562
Fund Balance July 1, 2005	<u>433,330</u>	<u>433,330</u>	<u>526,261</u>	<u>92,931</u>
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 332,493</u>	<u>\$ 332,493</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CITY HALL OPERATIONS
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for Services	\$ 298,865	\$ 298,865	\$ 266,573	\$ (32,292)
Investment Earnings	1,135	1,135	863	(272)
Total Revenues	<u>300,000</u>	<u>300,000</u>	<u>267,436</u>	<u>(32,564)</u>
Expenditures				
General Government	280,000	280,000	281,797	(1,797)
Capital Outlay	20,000	20,000	13,553	6,447
Total Expenditures	<u>300,000</u>	<u>300,000</u>	<u>295,350</u>	<u>4,650</u>
Excess (Deficit) of Revenues Over Expenditures	-	-	(27,914)	(27,914)
Other Financing Sources (Uses)				
Transfers In	-	-	38,499	38,499
Net Change in Fund Balance	-	-	10,585	10,585
Fund Balance July 1, 2005	-	-	(10,585)	(10,585)
Fund Balance June 30, 2006	<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)
COVINGTON LANDING OPERATIONS
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for Services	\$ 200,000	\$ 200,000	\$ 106,276	\$ (93,724)
Investment Earnings	-	-	1,217	1,217
Miscellaneous	-	-	70	70
	<u>200,000</u>	<u>200,000</u>	<u>107,563</u>	<u>(92,437)</u>
Total Revenues				
Expenditures				
General Government	783,036	828,056	219,740	608,316
Debt Service				
Principal	35,000	35,000	3,401	31,599
Interest and Other Charges	26,944	26,944	1,889	25,055
	<u>844,980</u>	<u>890,000</u>	<u>225,030</u>	<u>664,970</u>
Total Expenditures				
Excess (Deficit) of Revenues Over Expenditures	(644,980)	(690,000)	(117,467)	572,533
Other Financing Sources (Uses)				
Transfers In	690,000	690,000	636,137	(53,863)
Special Item				
Proceeds from Sale of Capital Assets	-	-	51,500	51,500
Net Change in Fund Balance	45,020	-	570,170	570,170
Fund Balance July 1, 2005	<u>-</u>	<u>-</u>	<u>(570,170)</u>	<u>(570,170)</u>
Fund Balance June 30, 2006	<u>\$ 45,020</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)
ARTS DISTRICT
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ -	\$ -	\$ 100	\$ 100
Expenditures				
General Government	461,500	461,500	50,096	411,404
Debt Service				
Principal	15,000	15,000	15,000	-
Interest and Other Charges	20,000	20,000	18,066	1,934
Capital Outlay	3,500	3,500	3,266	234
 Total Expenditures	 <u>500,000</u>	 <u>500,000</u>	 <u>86,428</u>	 <u>413,572</u>
 Net Change in Fund Balance	 (500,000)	 (500,000)	 (86,328)	 413,672
 Fund Balance July 1, 2005	 <u>130,000</u>	 <u>130,000</u>	 <u>129,875</u>	 <u>(125)</u>
 Fund Balance June 30, 2006	 <u><u>\$ (370,000)</u></u>	 <u><u>\$ (370,000)</u></u>	 <u><u>\$ 43,547</u></u>	 <u><u>\$ 413,547</u></u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
501 MAIN STREET OPERATIONS
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for Services	\$ 100,000	\$ 100,000	\$ 69,331	\$ (30,669)
Expenditures				
General Government	75,000	75,000	38,904	36,096
Debt Service				
Interest and Other Charges	<u>75,000</u>	<u>75,000</u>	<u>68,667</u>	<u>6,333</u>
Total Expenditures	<u>150,000</u>	<u>150,000</u>	<u>107,571</u>	<u>42,429</u>
Excess (Deficit) of Revenues Over Expenditures	(50,000)	(50,000)	(38,240)	11,760
Other Financing Sources (Uses)				
Transfers In	<u>50,000</u>	<u>50,000</u>	<u>53,374</u>	<u>3,374</u>
Net Change in Fund Balance	-	-	15,134	15,134
Fund Balance July 1, 2005	<u>-</u>	<u>-</u>	<u>(15,134)</u>	<u>(15,134)</u>
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
POLICE FORFEITURE
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 70,000	\$ 70,000	\$ 75,494	\$ 5,494
Investment Earnings	10,000	10,000	11,170	1,170
Total Revenues	<u>80,000</u>	<u>80,000</u>	<u>86,664</u>	<u>6,664</u>
Expenditures				
Police	63,300	63,300	48,106	15,194
Capital Outlay	236,700	236,700	16,846	219,854
Total Expenditures	<u>300,000</u>	<u>300,000</u>	<u>64,952</u>	<u>235,048</u>
Net Change in Fund Balance	(220,000)	(220,000)	21,712	241,712
Fund Balance July 1, 2005	<u>220,000</u>	<u>220,000</u>	<u>235,169</u>	<u>15,169</u>
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 256,881</u>	<u>\$ 256,881</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
POLICE BLOCK GRANT
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 80,000	\$ 80,000	\$ 81,636	\$ 1,636
Investment Earnings	-	-	4,681	4,681
	<u>80,000</u>	<u>80,000</u>	<u>86,317</u>	<u>6,317</u>
Total Revenues				
Expenditures				
Police	-	-	8,829	(8,829)
Capital Outlay	150,000	150,000	30,499	119,501
	<u>150,000</u>	<u>150,000</u>	<u>39,328</u>	<u>110,672</u>
Total Expenditures				
Net Change in Fund Balance	(70,000)	(70,000)	46,989	116,989
Fund Balance July 1, 2005	<u>70,000</u>	<u>70,000</u>	<u>77,922</u>	<u>7,922</u>
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,911</u>	<u>\$ 124,911</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 490,000	\$ 490,000	\$ 490,549	\$ 549
Investment Earnings	<u>2,000</u>	<u>2,000</u>	<u>2,071</u>	<u>71</u>
Total Revenues	492,000	492,000	492,620	620
Other Financing Sources (Uses)				
Transfers Out	<u>(450,000)</u>	<u>(540,000)</u>	<u>(450,000)</u>	<u>90,000</u>
Net Change in Fund Balance	42,000	(48,000)	42,620	90,620
Fund Balance July 1, 2005	<u>-</u>	<u>48,000</u>	<u>43,051</u>	<u>(4,949)</u>
Fund Balance June 30, 2006	<u>\$ 42,000</u>	<u>\$ -</u>	<u>\$ 85,671</u>	<u>\$ 85,671</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
KLC SERIES 2002
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
General Government	\$ 1,500	\$ 1,500	\$ 1,341	\$ 159
Debt Service				
Principal	416,500	416,500	415,909	591
Interest and Other Charges	470,000	470,000	464,879	5,121
Capital Outlay	<u>212,000</u>	<u>212,000</u>	<u>208,741</u>	<u>3,259</u>
 Total Expenditures	 <u>1,100,000</u>	 <u>1,100,000</u>	 <u>1,090,870</u>	 <u>9,130</u>
 Excess (Deficit) of Revenues Over Expenditures	 (1,100,000)	 (1,100,000)	 (1,090,870)	 9,130
 Other Financing Sources (Uses)				
Transfers In	<u>881,000</u>	<u>881,000</u>	<u>880,788</u>	<u>(212)</u>
 Net Change in Fund Balance	 (219,000)	 (219,000)	 (210,082)	 8,918
 Fund Balance July 1, 2005	 <u>-</u>	 <u>-</u>	 <u>(842,946)</u>	 <u>(842,946)</u>
 Fund Balance June 30, 2006	 <u>\$ (219,000)</u>	 <u>\$ (219,000)</u>	 <u>\$ (1,053,028)</u>	 <u>\$ (834,028)</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
WORKING CAPITAL RESERVE
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers In	\$ -	\$ 330,604	\$ 330,604	\$ -
Transfers Out	-	(544,702)	(544,702)	-
 Total Other Financing Sources (Uses)	 -	 (214,098)	 (214,098)	 -
Special Item				
Proceeds from Sale of Capital Assets	-	544,702	544,702	-
 Net Change in Fund Balance	 -	 330,604	 330,604	 -
 Fund Balance July 1, 2005	 -	 -	 -	 -
 Fund Balance June 30, 2006	 \$ -	 \$ 330,604	 \$ 330,604	 \$ -

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CAPITAL IMPROVEMENT FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ 1,484,240	\$ 640,828	\$ (843,412)
Expenditures				
Capital Outlay	<u>-</u>	<u>2,103,440</u>	<u>967,394</u>	<u>1,136,046</u>
Excess (Deficit) of Revenues Over Expenditures	<u>-</u>	<u>(619,200)</u>	<u>(326,566)</u>	<u>292,634</u>
Other Financing Sources (Uses)				
Transfers In	-	309,200	326,566	17,366
Proceeds from Capital Lease	<u>-</u>	<u>310,000</u>	<u>-</u>	<u>(310,000)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>619,200</u>	<u>326,566</u>	<u>(292,634)</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance July 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30, 2006	<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)
1990 FIRST MORTGAGE BONDS
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Debt Service				
Principal	\$ 38,500	\$ 38,500	\$ 38,469	\$ 31
Interest and Other Charges	<u>2,000</u>	<u>2,000</u>	<u>1,977</u>	<u>23</u>
Total Expenditures	<u>40,500</u>	<u>40,500</u>	<u>40,446</u>	<u>54</u>
Other Financing Sources (Uses)				
Transfers In	40,500	40,500	40,447	(53)
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>40,500</u>	<u>40,500</u>	<u>40,447</u>	<u>(53)</u>
Net Change in Fund Balance	-	-	1	1
Fund Balance July 1, 2005	<u>-</u>	<u>-</u>	<u>32</u>	<u>32</u>
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33</u>	<u>\$ 33</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
1995 FIRST MORTGAGE BONDS
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment Earnings	\$ -	\$ -	\$ 37,462	\$ 37,462
Expenditures				
General Government	20,000	20,000	161	19,839
Debt Service				
Principal	9,740,000	9,740,000	995,000	8,745,000
Interest and Other Charges	<u>740,000</u>	<u>740,000</u>	<u>293,651</u>	<u>446,349</u>
Total Expenditures	<u>10,500,000</u>	<u>10,500,000</u>	<u>1,288,812</u>	<u>9,211,188</u>
Deficit of Revenues Over Expenditures	<u>(10,500,000)</u>	<u>(10,500,000)</u>	<u>(1,251,350)</u>	<u>9,248,650</u>
Other Financing Sources (Uses)				
Transfers In	1,510,250	1,510,250	1,252,625	(257,625)
Transfers Out	<u>(19,500)</u>	<u>(19,500)</u>	<u>(18,317)</u>	<u>1,183</u>
Total Other Financing Sources (Uses)	<u>1,490,750</u>	<u>1,490,750</u>	<u>1,234,308</u>	<u>(256,442)</u>
Net Change in Fund Balance	(9,009,250)	(9,009,250)	(17,042)	8,992,208
Fund Balance July 1, 2005	<u>-</u>	<u>-</u>	<u>17,042</u>	<u>17,042</u>
Fund Balance June 30, 2006	<u><u>\$ (9,009,250)</u></u>	<u><u>\$ (9,009,250)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,009,250</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment Earnings	\$ -	\$ -	\$ 3,325	\$ 3,325
Expenditures				
General Government	79,000	79,000	76,940	2,060
Debt Service				
Principal	300,000	300,000	300,000	-
Interest and Other Charges	<u>671,000</u>	<u>671,000</u>	<u>653,830</u>	<u>17,170</u>
Total Expenditures	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,030,770</u>	<u>19,230</u>
Deficit of Revenues Over Expenditures	(1,050,000)	(1,050,000)	(1,027,445)	22,555
Other Financing Sources (Uses)				
Transfers In	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,065,730</u>	<u>15,730</u>
Net Change in Fund Balance	-	-	38,285	38,285
Fund Balance July 1, 2005	<u>-</u>	<u>-</u>	<u>55,816</u>	<u>55,816</u>
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,101</u>	<u>\$ 94,101</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment Earnings	\$ -	\$ -	\$ 904	\$ 904
Expenditures				
General Government	15,000	15,000	1,477	13,523
Debt Service				
Principal	-	-	-	-
Interest and Other Charges	<u>235,000</u>	<u>235,000</u>	<u>162,479</u>	<u>72,521</u>
Total Expenditures	<u>250,000</u>	<u>250,000</u>	<u>163,956</u>	<u>86,044</u>
Deficit of Revenues Over Expenditures	(250,000)	(250,000)	(163,052)	86,948
Other Financing Sources (Uses)				
Transfers In	<u>250,000</u>	<u>250,000</u>	<u>147,463</u>	<u>(102,537)</u>
Net Change in Fund Balance	-	-	(15,589)	(15,589)
Fund Balance July 1, 2005	<u>-</u>	<u>-</u>	<u>25,257</u>	<u>25,257</u>
Fund Balance June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,668</u>	<u>\$ 9,668</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
SEWER MAINTENANCE FEES
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment Earnings	\$ -	\$ -	\$ 14,127	\$ 14,127
Expenditures				
Principal	<u>306,000</u>	<u>306,000</u>	<u>305,909</u>	<u>91</u>
Net Change in Fund Balance	(306,000)	(306,000)	(291,782)	14,218
Fund Balance July 1, 2005	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,495,699</u>	<u>(4,301)</u>
Fund Balance June 30, 2006	<u>\$ 1,194,000</u>	<u>\$ 1,194,000</u>	<u>\$ 1,203,917</u>	<u>\$ 9,917</u>

COMBINING FINANCIAL STATEMENTS
PROPRIETARY FUNDS

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2006

	Internal Service Funds		
	Liability Insurance	Medical and Dental Insurance	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 721,786	\$ 65,616	\$ 787,402
Accounts Receivable	-	11,403	11,403
Due from Other Funds	195,562	1,150,000	1,345,562
Total Assets	917,348	1,227,019	2,144,367
 Liabilities			
Current Liabilities			
Accounts Payable	6,118	2,307	8,425
Estimated Liability for Claims	-	497,916	497,916
Due to Other Funds	-	710,901	710,901
Total Liabilities	6,118	1,211,124	1,217,242
 Net Assets			
Unrestricted	\$ 911,230	\$ 15,895	\$ 927,125

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2006

	Internal Service Funds		
	Liability Insurance	Medical and Dental Insurance	Total
Operating Revenues			
Insurance Premium Payments	\$ -	\$ 5,168,376	\$ 5,168,376
Other Operating Revenues	11,018	11,572	22,590
Total Operating Revenues	<u>11,018</u>	<u>5,179,948</u>	<u>5,190,966</u>
Operating Expenses			
Contractual Services	169,916	402,879	572,795
Claims and Judgments	30,752	4,789,825	4,820,577
Total Operating Expenses	<u>200,668</u>	<u>5,192,704</u>	<u>5,393,372</u>
Operating Loss	(189,650)	(12,756)	(202,406)
Non-Operating Revenues			
Investment Income	26,528	5,184	31,712
Loss Before Transfers	(163,122)	(7,572)	(170,694)
Transfers In	245,200	-	245,200
Change in Net Assets	82,078	(7,572)	74,506
Net Assets July 1, 2005	<u>829,152</u>	<u>23,467</u>	<u>852,619</u>
Net Assets June 30, 2006	<u>\$ 911,230</u>	<u>\$ 15,895</u>	<u>\$ 927,125</u>

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2006

	Internal Service Funds		
	Liability Insurance	Medical and Dental Insurance	Total
Cash Flows From Operating Activities			
Cash Received from Customers	\$ 504,537	\$ 5,142,802	\$ 5,647,339
Cash Received from Other Activities	11,018	11,572	22,590
Cash Paid for Claims	(198,705)	(5,191,071)	(5,389,776)
 Net Cash Used by Operating Activities	 316,850	 (36,697)	 280,153
Cash Flows from Non-Capital Financing Activities			
Transfer from Other Funds	245,200	-	245,200
Cash Flows from Investing Activities			
Interest Income	26,528	5,184	31,712
 Net Change in Cash	 588,578	 (31,513)	 557,065
Cash and Cash Equivalents July 1, 2005	<u>133,208</u>	<u>97,129</u>	<u>230,337</u>
 Cash and Cash Equivalents June 30, 2006	 <u>\$ 721,786</u>	 <u>\$ 65,616</u>	 <u>\$ 787,402</u>
 Reconciliation of Operating Loss to Net Cash (Used) Provided by Operating Activities			
Operating Income (Loss)	\$ (189,650)	\$ (12,756)	\$ (202,406)
Change in Assets and Liabilities			
Due from Other Funds	604,438	663,525	1,267,963
Accounts Payable	1,963	1,633	3,596
Due to Other Funds	(99,901)	(689,099)	(789,000)
 Net Cash Provided by Operating Activities	 <u>\$ 316,850</u>	 <u>\$ (36,697)</u>	 <u>\$ 280,153</u>

INDIVIDUAL FUND SCHEDULES
PROPRIETARY FUNDS

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (WITH VARIANCES)
LIABILITY INSURANCE
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Insurance Premium Payments	\$ -	\$ -	\$ -	\$ -
Other Operating Revenues	-	-	11,018	11,018
Total Operating Revenues	<u>-</u>	<u>-</u>	<u>11,018</u>	<u>11,018</u>
Operating Expenses				
Contractual Services	113,000	113,000	169,916	(56,916)
Claims and Judgments	<u>887,000</u>	<u>887,000</u>	<u>30,752</u>	<u>856,248</u>
Total Operating Expenses	<u>1,000,000</u>	<u>1,000,000</u>	<u>200,668</u>	<u>799,332</u>
Operating Loss	(1,000,000)	(1,000,000)	(189,650)	810,350
Non-Operating Revenues				
Investment Income	<u>5,000</u>	<u>5,000</u>	<u>26,528</u>	<u>21,528</u>
Income (Loss) Before Transfers	(995,000)	(995,000)	(163,122)	831,878
Transfers In	<u>245,200</u>	<u>245,200</u>	<u>245,200</u>	<u>-</u>
Change in Net Assets	(749,800)	(749,800)	82,078	831,878
Net Assets July 1, 2005	<u>749,800</u>	<u>749,800</u>	<u>829,152</u>	<u>79,352</u>
Net Assets June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 911,230</u>	<u>\$ 911,230</u>

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL (WITH VARIANCES)
MEDICAL AND DENTAL INSURANCE
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Insurance Premium Payments	\$ 2,739,600	\$ 4,975,000	\$ 5,168,376	\$ 193,376
Other Operating Revenues	-	-	11,572	11,572
Total Operating Revenues	<u>2,739,600</u>	<u>4,975,000</u>	<u>5,179,948</u>	<u>204,948</u>
Operating Expenses				
Contractual Services	461,600	422,000	402,879	19,121
Claims and Judgments	<u>2,303,000</u>	<u>4,578,000</u>	<u>4,789,825</u>	<u>(211,825)</u>
Total Operating Expenses	<u>2,764,600</u>	<u>5,000,000</u>	<u>5,192,704</u>	<u>(192,704)</u>
Operating Loss	(25,000)	(25,000)	(12,756)	12,244
Non-Operating Revenues				
Investment Income	<u>25,000</u>	<u>25,000</u>	<u>5,184</u>	<u>(19,816)</u>
Income (Loss) Before Transfers	-	-	(7,572)	(7,572)
Transfers In	-	-	-	-
Change in Net Assets	-	-	(7,572)	(7,572)
Net Assets July 1, 2005	<u>-</u>	<u>-</u>	<u>23,467</u>	<u>23,467</u>
Net Assets June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,895</u>	<u>\$ 15,895</u>

COMBINING FINANCIAL STATEMENTS
FIDUCIARY FUNDS

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Fiduciary Funds		
	Employees' Retirement	Police and Firemen's Pension	Totals
Assets			
Cash and Cash Equivalents	\$ 51,581	\$ 9,409	\$ 60,990
Investments - Mutual Funds	5,015,838	15,112,248	20,128,086
Due From Other Funds	1,400,000	-	1,400,000
Notes Receivable	-	189,653	189,653
Total Assets	6,467,419	15,311,310	21,778,729
Liabilities			
Accounts Payable	-	1,017	1,017
Due to Other Funds	-	153,897	153,897
Total Liabilities	-	154,914	154,914
Net Assets			
Held in Trust for Pension Benefits	<u>\$ 6,467,419</u>	<u>\$ 15,156,396</u>	<u>\$ 21,623,815</u>

CITY OF COVINGTON, KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2006

	Fiduciary Funds		
	Employees' Retirement	Police and Firemen's Pension	Totals
Additions			
Contributions			
Employee Contributions	\$ 8,248	\$ -	\$ 8,248
Miscellaneous	1,164	1,386	2,550
Impounding Lot	-	142,034	142,034
Total Revenues	<u>9,412</u>	<u>143,420</u>	<u>152,832</u>
Investment Earnings			
Interest and Dividends	220,639	615,438	836,077
Net Appreciation in Fair Value of Investments	<u>332,959</u>	<u>900,425</u>	<u>1,233,384</u>
Total Investment Earnings	<u>553,598</u>	<u>1,515,863</u>	<u>2,069,461</u>
Total Additions	<u>563,010</u>	<u>1,659,283</u>	<u>2,222,293</u>
Deductions			
Benefit Payments	814,886	1,778,736	2,593,622
Administration	19,328	58,486	77,814
Impounding Lot	-	18,164	18,164
Total Deductions	<u>834,214</u>	<u>1,855,386</u>	<u>2,689,600</u>
Change in Net Assets	(271,204)	(196,103)	(467,307)
Net Assets July 1, 2005	<u>6,738,623</u>	<u>15,352,499</u>	<u>22,091,122</u>
Net Assets June 30, 2006	<u>\$ 6,467,419</u>	<u>\$ 15,156,396</u>	<u>\$ 21,623,815</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.

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

	Fiscal Year			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental Activities / Primary Government				
Invested in Capital Assets, net of Related Deb	40,851,867	41,483,876	4,519,630	(2,888,790)
Restricted	1,307,719	1,593,846	1,943,252	1,943,882
Unrestricted	3,755,629	1,947,609	15,614,883	22,540,375
Total Governmental Activities Net Assets	<u>45,915,215</u>	<u>45,025,331</u>	<u>22,077,765</u>	<u>21,595,467</u>

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

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

	Fiscal Year			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Expenses				
Governmental Activities:				
General Government	7,781,587	9,381,965	3,939,011	4,822,043
Police	14,482,761	13,660,495	13,582,260	12,712,976
Fire	12,512,512	11,930,245	11,286,851	10,328,208
General Service	5,324,831	5,561,622	8,020,228	7,440,215
Recreation	2,325,250	2,575,568	1,045,289	787,164
Code Enforcement and Economic Development	9,817,626	9,086,241	9,825,619	10,876,935
Parking Garage	727,419	803,715	809,425	743,982
Interest on Long-term Debt	1,919,888	1,437,434	1,171,229	1,605,271
Total governmental activities expenses	54,891,874	54,437,285	49,679,912	49,316,794
Program Revenues				
Governmental Activities:				
General Government	1,215,111	761,041	1,928,888	1,737,441
Police	372,192	-	344,287	516,097
Fire	912,526	987,802	546,276	510,848
General Service	1,226,952	1,092,970	1,154,023	1,373,968
Recreation	-	-	90,465	39,525
Code Enforcement and Economic Development	56,017	-	-	1,312,485
Parking Garage	1,059,369	1,252,755	-	-
Interest on Long-term Debt	-	-	1,194,146	-
Operating Grants and Contributions	9,652,316	8,754,883	9,218,291	9,114,414
Capital Grants and Contributions	716,322	3,106,704	902,562	799,478
Total Governmental Activities Expenses	15,210,805	15,956,155	15,378,938	15,404,256
General Revenues and Other changes in Net Assets				
Governmental Activities:				
Taxes				
Real Property Taxes, Levied for General Purposes	5,913,401	4,399,593	4,945,540	5,094,960
Personal Property Taxes, Levied for General Purposes	589,401	496,286	474,360	679,089
Public Services Taxes	2,092,335	1,909,267	1,892,053	2,078,467
Taxes, Levied for Bank Deposits	62,232	62,323	102,802	74,272
Insurance Premium Taxes	5,324,223	5,240,743	4,909,972	4,746,726
Payroll Taxes	21,263,831	19,543,654	18,319,549	17,683,867
Net Profit Taxes	2,554,150	2,303,123	2,590,933	1,993,189
Other Taxes	490,889	358,751	376,845	351,664
Investment earnings	310,239	228,382	132,820	186,286
Fines and Forfeitures	-	444,832	-	-
Licenses and Permits	-	367,376	-	-
Commissions	-	-	-	-
Special item - Gain on Sale of Capital Assets	576,242	-	-	-
Miscellaneous	1,710,802	1,878,640	1,038,363	20,047,710
Transfers	-	(14,275,000)	-	(345,200)
Total General Revenues and Transfers	40,887,745	22,957,970	34,783,237	52,591,030
Change in Net Assets				
Total Primary Government	1,206,676	(15,523,160)	482,263	18,678,492

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

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

	Fiscal Year			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Fund				
Reserved	\$ 122,892	\$ 5,388	\$ -	\$ -
Unreserved	550,513	229,739	291,457	920,556
Total general fund	<u>\$ 673,405</u>	<u>\$ 235,127</u>	<u>\$ 291,457</u>	<u>\$ 920,556</u>
All Other Governmental Funds				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:				
Special revenue funds	810,353	1,207,276	2,578,865	3,439,783
Capital projects funds	-	-	-	4,053,087
Debt service funds	1,307,719	1,593,846	3,745,979	-
Total all other governmental funds	<u>\$ 2,118,072</u>	<u>\$ 2,801,122</u>	<u>\$ 6,324,844</u>	<u>\$ 7,492,870</u>

Note:

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

	Fiscal Year			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues				
Taxes	13,466,713	12,762,470	12,395,102	12,104,042
Licenses and Permits	24,123,130	22,214,153	21,287,327	20,028,720
Intergovernmental	10,345,557	9,636,936	10,120,853	9,913,892
Charges for services	4,128,721	4,094,568	4,745,670	4,721,842
Fines and Forfeitures	603,286	444,832	478,752	447,020
Investment Earnings	278,531	223,704	123,538	186,286
Miscellaneous	1,734,234	4,109,294	1,539,153	2,656,223
Total Revenues	54,680,172	53,485,957	50,690,395	50,058,025
Expenditures				
Current				
General Government	3,537,750	3,365,074	3,366,630	3,558,293
Police	14,109,828	13,239,562	12,833,125	11,913,958
Fire	12,168,065	11,429,099	10,800,154	9,947,813
General Service	5,180,111	5,358,833	7,761,571	7,105,526
Recreation	2,289,413	2,372,300	717,870	737,049
Code Enforcement and Economic Development	9,832,881	9,096,233	9,778,417	10,831,082
Parking Garage	727,419	803,715	809,425	743,982
Debt Service				
Principal	2,763,879	5,553,494	7,665,518	12,325,046
Interest and Other Charges	1,965,386	1,509,839	1,464,763	1,605,271
Capital Outlay	2,701,215	6,722,898	3,082,026	6,247,041
Total Expenditures	55,275,947	59,451,047	58,279,499	65,015,061
Excess of revenues Over (under) Expenditures	(595,775)	(5,965,090)	(7,589,104)	(14,957,036)
Other Financing Sources (Uses)				
Bonds issued		12,806,241	4,996,000	-
Lease proceeds			840,944	12,809,056
Transfers in	6,006,833	11,506,504	3,006,160	2,766,134
Transfer out	(6,252,032)	(25,926,704)	(3,051,160)	(3,111,334)
Capital Assets	596,202			
Miscellaneous		(1,003)		
Total other financing sources (uses)	351,003	(1,614,962)	5,791,944	12,463,856
Net change in fund balances	(244,772)	(7,580,052)	(1,797,160)	(2,493,180)
Debt service as a percentage of non capital expenditures	8.56%	11.88%	15.67%	21.43%

Note:

**Schedule 5
City of Covington
Assessed Value and Estimated Actual Value of Taxable Property,
Last Four Fiscal Years**

Fiscal Year	Real Property	Personal Property	Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
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

Notes: Property in Covington is reassessed once every four years. City property was last reassessed in 2003. The next reassessment will occur in 2007. The reassessment is conducted by the Kenton County Property Value Administrator. The property is assessed at 100% of value.

Tax rates are per \$100 of assessed value.

Schedule 6
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	State	Covington Schools Area	Kenton County Schools Area	Other	
1997	0.3532	0.866	0.466	0.1290	0.163	0.1062	1.6174	1.2174
1998	0.3532	0.895	0.465	0.1300	0.157	0.1100	1.6452	1.2152
1999	0.3223	0.891	0.478	0.1290	0.148	0.1070	1.5973	1.1843
2000	0.3223	0.870	0.478	0.1310	0.141	0.1077	1.5720	1.1800
2001	0.3223	0.890	0.477	0.1310	0.136	0.1100	1.5893	1.1763
2002	0.2990	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	0.2842	0.922	0.556	0.1380	0.128	0.1410	1.6132	1.2472

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 7
 City of Covington
 Principal Property Tax Payers,
 Last Four Fiscal Years

Taxpayer	2006		2005		2004		2003	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
CPX-Rivercenter Dev/Corp	\$ 141,778,300	5.97%	\$ 147,046,300	7.13%	\$ 142,457,200	6.90%	\$ 137,114,800	6.24%
Fidelity Properties Inc	84,387,500	3.55%	85,932,800	4.16%	83,932,800	4.07%	82,387,500	3.75%
Scott Street Land Co. Inc	14,960,900	0.63%	14,960,900	0.73%	14,960,900	0.73%	14,960,900	0.68%
J & S Company Inc	10,482,000	0.44%	10,482,000	0.51%	10,482,000	0.51%	13,741,000	0.62%
Atkins & Pearce Mfg	10,000,000	0.42%	10,000,000	0.48%	10,000,000	0.31%	10,000,000	0.48%
OZRE Lodging I LLC	13,947,100	0.59%	9,000,000	0.44%	9,000,000	0.48%	9,600,000	0.45%
Latonia Realty Inc	6,550,000	0.59%	7,000,000	0.44%	7,000,000	0.44%	8,033,000	0.44%
Pioneer Park Assoc #2 LLC	6,812,500	0.28%	6,812,500	0.31%	5,947,000	0.44%	6,486,000	0.37%
Scottenstein Trust	6,565,000	0.28%	6,349,000	0.34%	6,349,000	0.31%	6,349,000	0.30%
Atria Highland Crossing	6,165,000	0.28%	6,165,000	0.31%	6,165,000	0.34%	10,500,000	0.29%
Total	\$ 301,648,300	12.71%	\$ 303,748,500	14.85%	\$ 296,293,900	14.53%	\$ 299,172,200	13.62%

Schedule 8
 City of Covington
 Property Tax Levies and Collections,
 Last Four Fiscal Years

Fiscal Year Ended June 30, 2006	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date
		Amount	Percentage of Levy		
2003	\$ 5,011,764	\$ 4,824,742	96.27%	\$ 136,215.60	\$ 4,960,957 98.99%
2004	5,076,892	4,907,183	96.66%	98,483.21	5,005,666 98.60%
2005	5,143,225	4,926,477	95.79%	80,830.85	5,007,308 97.36%
2006	5,483,028	5,293,287	96.54%	-	5,293,287 96.54%

Schedule 9
City of Covington
Ratios of Outstanding Debt by Type,
Last Four Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Obligation Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
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

Schedule 10
City of Covington
Ratios of General Bonded Debt Outstanding,
Last Four 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%	610.72
2006	27,907	1.52%	643.46

Schedule 11
City of Covington
Legal Debt Margin Information,
Last Four Fiscal Years
(dollars in thousands)

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	\$	1,833,789
Debt limit (10% of assessed value)	\$	183,379
Debt applicable to limit:		
General Obligation	\$	27,907
Total net debt applicable to limit	\$	27,907
Legal debt margin	\$	<u>155,472</u>

	Fiscal Year			
	2003	2004	2005	2006
Debt limit	\$ 167,618	\$ 169,796	\$ 172,014	\$ 183,379
Total net debt applicable to limit	0	4962	26487	27907
Legal debt margin	<u>\$ 167,618</u>	<u>\$ 164,834</u>	<u>\$ 145,527</u>	<u>\$ 155,472</u>
Total net debt applicable to the limit as a percentage of debt limit	0%	0.29%	15.40%	15.22%

Schedule 12
 City of Covington
 Demographic and Economic Statistics,
 Last Four Fiscal Years

Calendar Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
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%

**Schedule 13
City of Covington
Principal Employers,
Current Year**

<u>Employer</u>	<u>2006</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Internal Revenue Service	4,800	1	18.38%
Fidelity Investments	3,627	2	17.86%
Covington Board of Education	914	3	3.20%
St. Elizabeth Hospital	800	4	3.17%
BBI Marketing	400	5	2.28%
State of Kentucky	360	6	1.64%
Ommicare	285	7	1.38%
Atkins & Pearce Mftg	250	8	1.12%
No. KY MH-MR Board	270	9	0.82%
Rosedale Manor	304	10	0.67%
 Total	 <u>\$ 12,010</u>		 <u>50.52%</u>

Note: Percentage of total city employment is calculated on the percentage of payroll taxes paid by company as a percentage of payroll taxes received

Schedule 14
City of Covington
Full-Time-Equivalent City Government Employees by Function/Program,
Last four Fiscal Years

<u>Function/Program</u>	<u>Full-time-Equivalent Employees as of June 30</u>			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General government				
Management services	17	18	17	17
Finance	15	16	15	15
Economic development	6	7	5	5
Code enforcement	9	10	10	10
Housing	20	18	16	16
Police				
Officers	113	116	116	116
Civilians	31	32	34	34
Fire				
Firefighters and officers	117	117	118	118
Civilians	1	1	1	1
Other public works				
Public works	38	38	38	36
Engineering	3	3	2	2
Parks and recreation	20	20	20	20
Total	390	396	392	390

**Schedule 15
City of Covington
Operating Indicators by Function/Program,
Last four Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Police				
Physical arrests	5,167	5,017	5,342	5,819
Parking violations	5,523	4,265	2,894	15,622
Traffic violation	9,581	9,714	9,894	9,721
Fire				
Fire responses	4,209	3,951	4,167	3,985
Ambulance runs	7,931	7,927	8,602	9,742
Inspections	2,618	2,696	2,521	2,576

Note: The city has established indicators for other government activities and will be reported beginning in fiscal year 2007.

**Schedule 16
City of Covington
Capital Assets Statistics by Function/Program,
Last four Fiscal Years**

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

SINGLE AUDIT SECTION

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Fund Balance at June 30, 2005</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance at June 30, 2006</u>
U.S. Department of HUD						
Direct Programs						
Section 8 Housing Choice Vouchers	14.871 (M)	KY-133-VO-0054-0F04	\$ -	\$ <u>5,623,071</u> (F)	\$ <u>5,623,071</u> (F)	\$ -
			<u>547,490</u>	<u>54,704</u> (NF)	<u>111,323</u> (NF)	<u>490,871</u>
Community Development Block Grants/ Entitlement Grants	14.218	B-02-MC-21-0001	-	2,355,286 (F)	2,355,286 (F)	-
			-	<u>637,782</u> (NF)	<u>637,782</u> (NF)	-
HOME Program	14.239	M-02-MC-21-0200	51,728	<u>392,914</u> (NF)	<u>379,012</u> (NF)	<u>65,630</u>
		M-03-MC-21-0200	-	<u>231,982</u> (F)	<u>231,982</u> (F)	-
U.S. Department of HUD						
Direct Programs						
COPS in School 2002	20.205	C-99006633	-	<u>45,011</u> (F)	<u>45,011</u> (F)	-
Newport Steel			-	<u>15,217</u> (F)	<u>15,217</u> (F)	-
Highway Safety			-	<u>31,880</u> (F)	<u>31,880</u> (F)	-
Local Law Enforcement Block Grant	16.592	02-LB-BX-0100	-	<u>81,636</u> (F)	<u>81,636</u> (F)	-
Total Federal Financial Assistance			-	<u>8,384,083</u> (F)	<u>8,384,083</u> (F)	
			<u>\$ 599,218</u>	<u>\$ 1,085,400</u> (NF)	<u>\$ 1,128,117</u> (NF)	<u>\$ 556,501</u>

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

Note to Schedule of Federal Awards

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



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

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Covington, Kentucky as of and for the year ended June 30, 2006, and have issued our report thereon dated December 1, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Covington, Kentucky, in a separate letter dated December 1, 2006.

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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 06-1.

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

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 1, 2006



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

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

Compliance

We have audited the compliance of the City of Covington, Kentucky with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006.

The City of Covington, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Covington, Kentucky's management. Our responsibility is to express an opinion on City of Covington, Kentucky's compliance based on our audit.

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

In our opinion, the City of Covington, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Covington, Kentucky is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Covington, Kentucky's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 1, 2006

**CITY OF COVINGTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006**

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Financial Statement Opinion	Unqualified
Was there any material control weakness conditions reported at the financial statements level (GAGAS)?	No
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
FEDERAL AWARDS	
Was there any material internal control weakness conditions reported for major federal programs?	No
Were there any other reportable conditions identified, not considered to be material weaknesses reported for major 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?	No
Major Programs (list):	Section 8 Housing Choice Voucher [CFDA 14.871]
Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: > all others
Low Risk Auditee?	Yes

**CITY OF COVINGTON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006**

SECTION II – FINANCIAL STATEMENT FINDINGS

Non-Compliance

06-1 Expenditures in excess of budgeted appropriations.

Condition: The City made expenditures in several funds that were in excess of the amounts appropriated in the budget ordinance.

Criteria: Kentucky Revised Statutes prohibit a city from making expenditures that are not in accordance with the budget ordinance.

Effect: Expenditures made in violation of state law could be subject to legal challenge.

Recommendation: The City should carefully monitor expenditures to ensure that they do not exceed budgeted amounts.

Response: The City concurs with the recommendation.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters to be reported.

CITY OF COVINGTON, KENTUCKY
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

Reportable Conditions

05-1 Payroll and insurance taxes

Current Status:

The City has implemented other internal controls in order to provide reasonable assurance that all revenues have been recorded and properly classified.

Non-Compliance

05-2 Expenditures in excess of budget appropriations

Current Status:

See Finding 06-1.

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.