

**CITY OF COVINGTON, KENTUCKY**

**Year Ended June 30, 2007**

*Comprehensive Annual Financial Report*

**CITY OF COVINGTON, KENTUCKY**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Year Ended June 30, 2007**

Prepared By:  
Robert J. Due  
Director of Finance

**CITY OF COVINGTON, KENTUCKY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2007**

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## **INTRODUCTORY SECTION**



## OFFICE OF THE CITY MANAGER

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Covington, Kentucky 41011

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City Manager  
jfossett@covingtonky.gov

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Fax (859) 292-2137  
www.covingtonky.gov

December 20, 2007

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, 2007.

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, 2007, 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,

2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

#### Profile of the Government

The City of Covington, founded in 1815, is located in the northern most part of the state, situated in Kenton County and is part of the Northern Kentucky Region, which ranks as one of the top growth areas in Kentucky. The City of Covington currently occupies a land area of 13.1 square miles and serves a population of 43,370. The City of Covington is empowered to levy numerous taxes and fees. Its major revenue sources include an occupational license tax levied on gross wages and net profits, 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; advanced life support emergency services; street maintenance and improvement; waste collection services; a full range of recreational areas and activities; cultural events; planning and zoning; housing rehabilitation and development; and public nuisance and zoning code enforcement. In addition to these activities, the governing body is responsible for funding the

Employees' Retirement Fund and the Police and Firemen's Retirement Funds: 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, or his designee. The City Manager cannot make transfers of appropriations between departments without the approval of the City Commissioners. Expenditures may not legally exceed budgeted appropriations at the departmental level. Any revisions to the budget that would alter total revenues and department expenditures of any fund must be approved by the City Commissioners. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 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.

In October of 2007, a \$14.4 million connector road to the Fidelity Investment Campus was officially opened. 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 completed property acquisition and began road construction and site preparation for 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.

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 this project

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

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

In addition, more than \$60 million in residential development projects in the downtown area are nearing completion. The Ascent at Roebling Bridge which is a \$47 million, 80-unit, 21-story condominium tower designed by Daniel Libeskind 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 5.22%. The pension trust funds averaged a return of 17.43% 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, 2007 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 \$352,665 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, 2007.

#### Awards and Acknowledgements

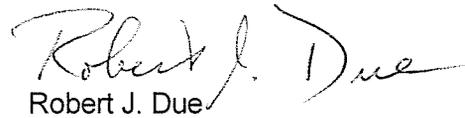
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the fourteenth consecutive year that the City has received this prestigious 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, 2006

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.



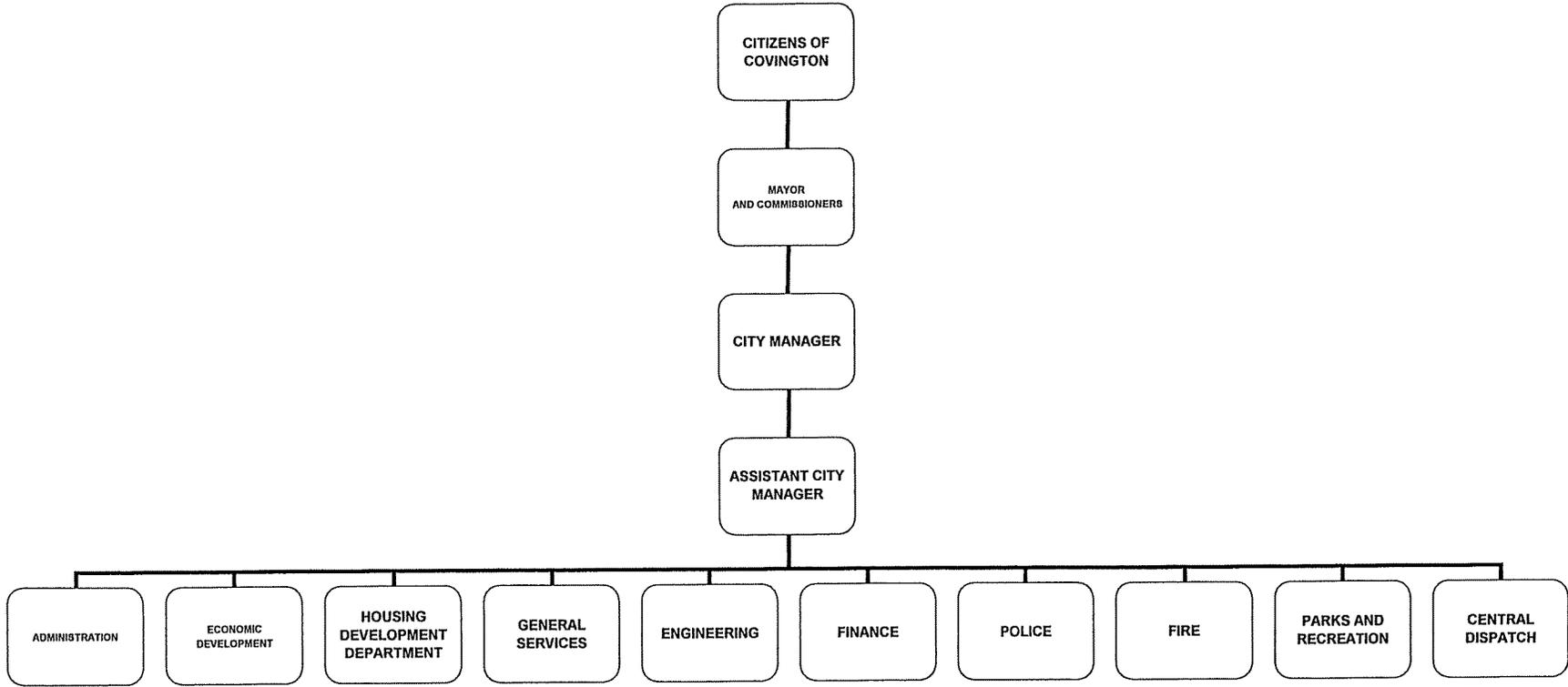
*Oliver S. Cox*

President

*Jeffrey R. Emery*

Executive Director

CITY OF COVINGTON, KENTUCKY  
ORGANIZATIONAL CHART



**CITY OF COVINGTON, KENTUCKY  
LIST OF PRINCIPAL OFFICIALS  
June 30, 2007**

**MAYOR**

Irvin T. Callery

**COMMISSIONERS**

Gerald Bamberger

Sherry Carran

Steve Megerle

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 – Lee Russo

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, 2007, 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, 2007, 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 20, 2007, 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 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 20, 2007

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management Discussion and Analysis (MD&A) of the City of Covington, Kentucky's (the City's) financial statements provides readers an overview and analysis of the City's financial position and activities for the fiscal year ended June 30, 2007. The information presented here should be read in conjunction with the City's basic financial statements which immediately follow this analysis.

### **USING THIS ANNUAL REPORT**

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

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

### **Financial Highlights**

The assets of the City exceeded its liabilities at the close of the most recent year by \$57,884,299 (net assets), and represent an increase of \$619,885 from the prior year as Restated. This amount includes \$39,709,313 that is invested in capital assets net of related debt. Another \$883,123 is restricted for debt service and \$17,286,863 is unrestricted and available to fund the City's future obligations, activities, and projects.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$5,748,356, an increase of \$2,956,879 from the previous year. Of the \$5,748,356 in combined fund balance, \$675,320 in the General Fund was unreserved, undesignated, and available. The City has a minimum reserve retention policy of a minimum of 5% of General Fund revenue. The \$675,320 in General Fund combined with the fund balance of \$970,264 in the Working Capital Reserve Special Revenue Fund equals \$1,645,584, or 3.8% of General Fund revenue. Last fiscal year, the City's fund balance in General Fund and Working Capital Reserve was \$1,004,009, or 2.3% of General Fund revenue.

The City's governmental activities total debt decreased \$1,097,985. Payment of principal on outstanding debt was \$2,727,985 for the year. New debt issued for capital projects was \$1,630,000.

## **Government-Wide Financial Statements**

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

The Statement of Net Assets presents information on all City assets and liabilities as of June 30, 2007. Net assets are the difference between the assets and liabilities. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. In assessing the City's condition, other factors must be considered as well, such as changes in the City's property tax base, occupational license tax base, and the condition of the City's capital assets (roads, buildings, equipment, and sidewalks) to assess the overall health of the City.

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

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

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

## **Fund Financial Statements**

Fund financial statements report the City's operations in more detail than the government-wide statements. The analysis of the City's major funds begins on page 55. The non-major fund financial statements begin on page 61. Some funds are required to be established by State law or by bond covenants. However, the City Commission may establish many other funds to help control and manage money for particular purposes (i.e., Police Forfeiture Fund, Devou Park Maintenance Fund, City Hall Operations Fund, etc.) or to show that it is meeting legal responsibilities for grant funds (i.e. Community Development Block Grant Fund, Housing Voucher Fund, HOME

Program Fund, etc.). The City's reports financial activity under three kinds of funds, governmental and proprietary, and fiduciary.

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

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

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

## Statement of Net Assets

For the year ended June 30, 2007, net assets changed as follows:

	<b>2007</b>	<b>2006</b> <b>(restated)</b>	<b>From FYE 06</b>
Current and other assets	\$ 31,743,443	\$ 26,643,600	\$ 5,099,843
Capital assets	66,400,438	67,875,489	(1,475,051)
Other Non Current Assets	<u>10,582,707</u>	<u>11,764,693</u>	<u>(1,181,986)</u>
Total assets	<u>108,726,588</u>	<u>106,283,782</u>	<u>2,442,806</u>
Current liabilities	13,255,478	10,109,057	3,146,421
Non-current liabilities	<u>37,586,811</u>	<u>38,910,311</u>	<u>(1,323,500)</u>
Total liabilities	<u>50,842,289</u>	<u>49,019,368</u>	<u>1,822,921</u>
Net assets:			
Invested in capital assets, net of debt	39,709,313	40,851,868	(1,142,555)
Restricted	888,123	1,307,719	(419,596)
Unrestricted	<u>17,286,863</u>	<u>15,104,828</u>	<u>2,182,035</u>
Total net assets	<u>\$ 57,884,299</u>	<u>\$ 57,264,414</u>	<u>\$ 619,885</u>

The total assets of the City on June 30, 2006 were \$108.7 million, while total liabilities were \$50.8 million, resulting in net assets of \$57.9 million. The largest component of the City's net assets, \$39.7 million, or 68.6%, reflects its investment in capital assets. Unrestricted net assets which represent funds that may be used at the City's discretion increased \$2.2 million. Net Assets increased \$619,885 with revenue of \$56,370,591 against expenditures of \$55,750,706.

The 2006 net assets have been restated to reflect a required change in recording a capital asset addition made in a prior year. The capital asset addition was a net pension obligation that was not recorded on the government-wide statement of net assets last fiscal year. Pension obligation bonds were issued but the bond proceeds contributed to the pension fund in excess of the actuarially required contribution were not recorded as an asset. Net assets in 2006 have been increased from the \$45,915,215 as originally reported to \$57,264,414.

## Statement of Activities

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>	<u>Increase (Decrease) From 06</u>
Revenues:			
Program revenues:			
Charges for services	\$ 4,827,983	\$ 4,842,167	\$ (14,184)
Operating grants and contributions	8,840,224	9,652,316	(812,092)
Capital grants	1,279,884	716,322	563,562
General revenues:			
Taxes	38,593,011	38,866,704	(273,693)
Interest	389,885	310,239	79,646
Other	2,439,604	1,710,802	728,802
Total revenues	<u>56,370,591</u>	<u>56,098,550</u>	<u>272,041</u>
Expenses:			
General government	6,975,709	7,781,587	(805,878)
Police	14,873,868	14,482,761	391,107
Fire	13,595,531	12,512,512	1,083,019
General services	6,001,968	5,324,831	677,137
Recreation	2,350,546	2,325,250	25,296
Housing and economic developmen	9,345,867	9,817,626	(471,759)
Parking Garage	734,401	727,419	6,982
Interest on long term debt	1,872,816	1,919,888	(47,072)
Total expenses	<u>55,750,706</u>	<u>54,891,874</u>	<u>858,832</u>
Increase in net assets before transfers and other expenses	619,885	1,206,676	(586,791)
Transfers	-	-	-
Other expenses	-	-	-
Increase in net assets	<u>619,885</u>	<u>1,206,676</u>	<u>(586,791)</u>
Net assets - July 1	<u>57,264,414</u>	<u>56,057,738</u>	<u>1,206,676</u>
Net assets - June 30	<u>\$ 57,884,299</u>	<u>\$ 57,264,414</u>	<u>\$ 619,885</u>

Revenues for the City's governmental activities were \$56.4 million, an increase of \$272,041 from the prior year. Taxes which include occupational license fees, property taxes, insurance premiums taxes, and net profit taxes decreased \$273,693 (7.0%) and represent 69.5% of all revenue. Payroll and net profit occupational license fees increased \$393,098 and \$405,579, respectively as the employment base and business climate continued to improve. Change in reporting of deferred revenue was the reason for the decrease in taxes category.

Total expenses for the City's governmental activities were \$55.8 million, a 1.6% increase from the prior year. The 2007 expenses include current year amortization of the prepaid pension obligation asset in the amount of \$1,135,169 that was not included in the 2006 expenses. Without the adjustment the total expenses would have decreased by \$276,337. Public Safety expenses totaled \$28.5 million and accounted for 51.1% of all expenditures. Emphasis on Public Safety was reflected in an increase of \$391,107, or 2.7%, in Police expense and an increase of \$1,083,019, or 8.6%, in Fire expense. A grant in the amount of \$265,187 was awarded to purchase a self-contained breathing apparatuses (SBCA) along with an air compressor and accessories for the use of the Fire Department. The award was a federally funded Assistance to Firefighters Grant.

## Fund Financial Statements

### GENERAL FUND

The following schedules and charts present a summary of the General Fund revenues and expenditures for the fiscal year ended June 30, 2007, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2007 Amount	Percent Of Total	Increase (Decrease) From FYE 06	Percent Increase (Decrease)
Taxes	\$ 13,004,339	30.08%	\$ 28,175	0.23%
Licenses and permits	24,897,197	57.59%	774,067	3.64%
Intergovernmental	288,295	0.67%	(159,331)	-16.91%
Fines and forfeitures	711,786	1.65%	108,500	22.66%
Charges for services	3,794,154	8.78%	107,613	2.98%
Interest	112,006	0.26%	20,500	130.81%
Miscellaneous	423,478	0.98%	82,252	31.75%
<b>Total revenues</b>	<b>\$ 43,231,255</b>	<b>100.00%</b>	<b>\$ 961,776</b>	<b>2.49%</b>

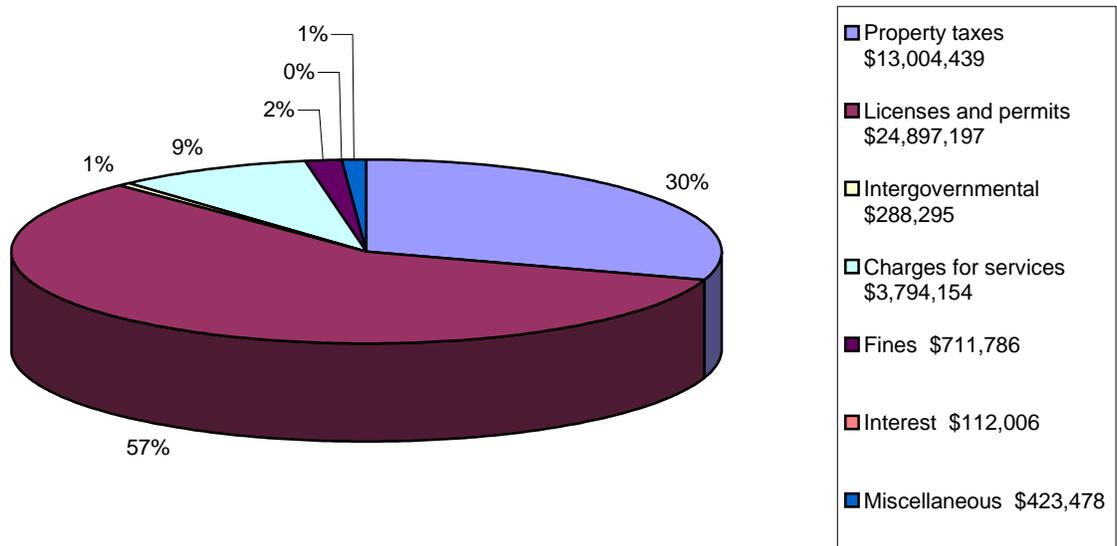
Taxes which include real estate and personal property taxes increased modestly with an increase in real estate tax revenue and decrease in personal property tax revenue. During the year, the Board of Commissioners approved a reduction in the property tax rate from .2990 per \$100 valuation to .2842 per \$100 valuation. An 8.6% increase in total assessed value to \$1,966,243,881 allowed the rate reduction without a negative impact on revenue.

Occupational License revenue includes both a payroll tax and a net profit tax on businesses. The occupational fee on payroll increased \$393,098 and the net profit revenue increased \$405,579 from the prior fiscal year. The rate of growth in taxable wages and net profit is expected to increase significantly during the next two years. Expansion of Fidelity Investment Inc, the largest single employer in Covington, and the construction of the St. Elizabeth medical center will add 2,000 jobs over the next two years.

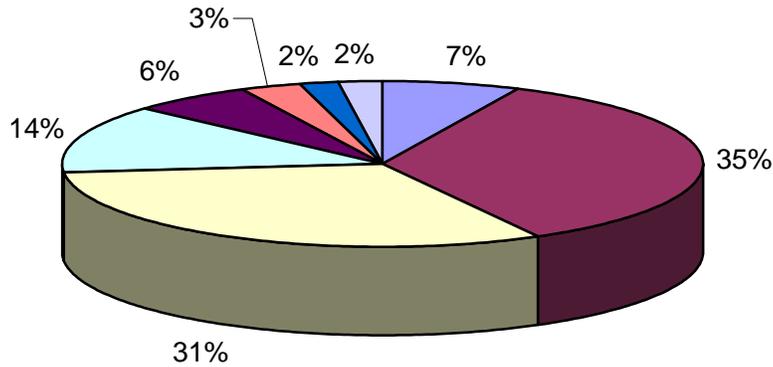
The decrease in intergovernmental funds is the result of the expiration of a federal grant for the “Cops in School Program”. The Covington School District has agreed to finance the program and explains the increase in miscellaneous funds.

Interest income, which by contract is tied to Federal Funds rate, increased due to Federal Reserve action. The improved cash position of the City was also a major contributing factor.

**2007 General Fund Revenues**



### 2007 General Fund Expenditures



General Government	\$2,664,224
Police	\$13,749,466
Fire	\$12,267,267
General Services	\$5,292,360
Recreation	\$2,309,959
Code Enforcement and economic development	\$1,228,899
Parking Garage	\$734,401
Debt Service	\$898,438

Expenditures	FYE 2007 Amount	Percent Of Total	Increase (Decrease) From FYE 06	Percent Increase (Decrease)
General government	\$ 2,664,224	6.81%	\$ (203,070)	-8.27%
Public safety	26,016,733	66.46%	670,192	3.25%
General services	5,292,360	13.52%	112,249	1.58%
Recreation	2,309,959	5.90%	20,546	2.79%
Code enforcement and economic development	1,228,899	3.14%	(53,147)	-5.09%
Parking garage	734,401	1.88%	6,982	0.94%
Capital outlay	-	0.00%	(15,490)	-0.81%
Debt service	898,438	2.30%	15,364	3.34%
<b>Total expenditures</b>	<b>\$ 39,145,014</b>	<b>100.00%</b>	<b>\$ 553,626</b>	<b>1.32%</b>

Expenditures increased from the prior year by only 1.3%, or \$553,626. All three collective bargaining units worked without a contract most of the fiscal year. As a result, there were no salary increases. When settlement was reached in June of 2007, savings in health care offset salary increases. There was no retro active salary increase included in agreement although the firefighters received a one-time signing bonus. For that reason, payroll and benefit costs remained the same as last year despite a significant increase in pension costs. Full time positions were reduced from 374 to 369. None of the positions that were eliminated were public safety positions. Staff reduction was accomplished through attrition. There were no layoffs. Pension costs will continue to be a major concern. The employer's share for hazardous positions increased from 25.01% of compensation in fiscal year 2006 to 28.21% for fiscal year 2007. Actual pension costs for hazardous positions increased \$459,979 to \$3,832,975 for the year. The rising costs of utilities and motor fuel have forced the City to reduce costs in other areas to maintain current level of service.

### **Other Governmental Funds**

The City's governmental funds reported a combined ending fund balance of \$5,748,356, an increase of \$2,956,879 from the previous year. General Fund Balance is only \$3,526 of the increase. Major factors contributing to the increase include: \$1,028,335 in the Housing Voucher program, \$1,053,028 in the KLC 2002 Fund, a capital project fund, and \$639,660 in the Working Capital Reserve.

The US Department of Housing and Urban Development (HUD) is the funding source for the Housing Voucher Program. During the year, payments from HUD exceeded actual assistance payments to landlords by \$900,000. In the past, a reconciliation of actual program utilization would require repayment of unused funds during the year. Changes in the HUD reconciliation process eliminated the payback and funds remained with the City. Instructions have not yet been transmitted on how HUD will handle the unused funds from the 2007 fiscal year.

At the close of fiscal year 2006, there was a negative fund balance of \$1,053,028 in the KLC Series 2002 Fund. The negative fund balance was caused by demolition and reconstruction of the Covington Water Park. The plan was to finance the demolition and construction through the issuance of debt during fiscal year 2007. A portion of the \$1,630,000 in new debt issued in fiscal year 2007 was applied to this project and eliminated the negative fund balance.

The \$639,660 increase in Working Capital Reserve fund balance consists of sale of land in the amount of \$239,660 and a \$400,000 transfer from General Fund. The fund balance from the Working Capital Reserve is combined with the fund balance of the General Fund to calculate the City's progress toward a minimum 5% of General Fund revenue fund balance retention policy. Disbursements from the fund can only be made by resolution adopted by the Board of Commissioners. No disbursements from the Working Capital Reserve have been approved since its inception. The parcel of land that was sold during the year is being developed for construction of a medical center.

## General Fund Budgetary Highlights

Over the course of the fiscal year, the City Commission approved revisions of the General Fund budget three times. The revenue budget was increased \$807,917, or 1.9%. The expense budget was increased \$522,936, or 1.3%.

Original revenue line items that increased are as follows:

Prior Year Fund Balance	\$735,580
Other Charges for Current Services	72,337

Prior Year Fund Balance was designated as the source of funds for disbursement of funds negotiated in settlement of collective bargaining unit contracts. Fortunately, the City exceeded revenue targets and eliminated the need to utilize Prior Year Fund Balance. In August of 2006, the Board of Commissioners approved an increase in the charge for ambulance services which explains the increase in Other Charges for Current Services.

Original expense budget for government activities were changed as follows:

Debt Service	\$472,345
Public Safety	50,591

The increase in public safety expense from settlement of labor contracts was offset by reclassification of debt service payment from public safety to debt service. When the City elected to participate in the State Retirement System, debt was issued to transfer existing public safety employees to the State system. When the budget was originally adopted this year, this debt service payment was budgeted to public safety but should have been budgeted to debt service.

## DEBT AND CAPITAL ASSET ADMINISTRATION

### Debt Administration

At year-end, the City had \$43,196,326 in outstanding notes, capital leases, bonds, and uncompensated absences compared to \$44,181,159 the prior year. The following is a summary of the changes in the City's outstanding long-term debt from fiscal year 2006 to fiscal year 2007.

	<u>2007</u>	<u>2006</u>
Mortgage Bonds payable (backed by city)	\$ 24,481,133	\$ 26,102,140
Note payable (backed by city)	1,406,475	1,804,865
Capital lease obligations (backed by city)	16,152,702	15,231,290
Compensated Absences	<u>1,156,016</u>	<u>1,042,864</u>
Totals	<u>\$ 43,196,326</u>	<u>\$ 44,181,159</u>

New debt for capital assets was issued in the amount of \$1,630,000. Projects financed include demolition and reconstruction of the water park, purchase of police cruisers, purchase of turn-out gear for Fire Department, and Public Works vehicles. Principal payments of \$2,727,985 exceeded new debt issued.

The Kentucky Constitution states that the total principal amount of City indebtedness, which excludes self-supporting obligations, revenue bonds, special assessment debt, and non-tax supported debt, cannot exceed 10% of the value of taxable property in the City. The debt limit for the City of Covington is \$196 million.

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

## Capital Assets

The City's capital assets, net of depreciation as of June 30, 2007 totaled \$66,400,438, a decrease of \$1,475,051 from last year.

This year's major capital additions are as follows:

Land Acquisition Restricted for Development	\$658,300
Building Improvements	
City Hall	54,138
Mainstrasse Bell Tower	148,205
RiverCenter Parking Garage	33,573
Infrastructure including street resurfacing etc	900,039
Thermal Imaging Cameras Fire Dept	62,825
Police Radios	47,170
Police Cruisers	203,060
Ambulances	246,096
Construction in Progress	588,983

The following is a summary of changes in the City's capital assets from fiscal year 2006 to fiscal year 2007.

	<b>Governmental Activities</b>	
	2007	2006
Land	\$ 14,376,605	\$ 13,743,955
Land improvements	1,159,362	1,159,362
Building	23,354,973	23,354,973
Building Improvements	8,297,926	8,062,010
Vehicles	8,681,625	8,230,166
Other equipment	4,743,998	4,655,153
Public domain infrastructure	104,364,589	103,464,550
Construction in progress	884,385	295,402
<b>TOTALS</b>	<b>\$ 165,863,463</b>	<b>\$ 162,965,571</b>

The City has elected to apply the Modified Approach to accounting for its streets infrastructure system as set forth in GASB 34. The City uses a pavement condition index (PCI) to assess the surface condition of individual pavement segments. The percentage of roads with a PCI less than 24 on a scale of 100 was reduced from 5.74% as of June 30, 2005 to 3.29% as of June 30, 2007. Roads with a PCI of 24 or less are considered in serious or failed condition. The condition of the City's streets is a still a major concern. An investment of \$25.2 million is required over the next five years to bring City streets up to a reasonable standard. Plans to accomplish that have yet to be completed.

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

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The budget for the 2008 fiscal year continues to move the City toward financial accountability and stability. Increasing General Fund and Working Capital Reserve fund balances, control of salary and health care costs, and continuation of basic city services have been accomplished without any layoffs or other service reductions.

Significant progress has been made on increasing the City's financial reserves. As discussed in the financial highlights, the combined fund balance in the General Fund and the Working Capital Reserve is \$1,645,584, or 3.8%, of General Fund revenue. Two years ago, the combined fund balance in the General Fund and Working Capital Reserve was \$235,127, or .6%, of General Fund revenue.

The City, however, continues to under fund its capital investment. Over the next five years an investment of \$41.5 million is required. The 2008 budget includes only \$3.4 million in capital investment which is well short of the \$8.3 billion per year average that is required.

With the settlement of labor contracts and progress on financial reserves, plans will be focused on increasing investment in capital assets.

The economic outlook is for modest growth in the coming year. The US economy is slowing and the Northern Kentucky and Greater Cincinnati/Northern Kentucky economies generally follow suit. The housing mortgage crisis, oil price increases, and credit crunch will likely dampen growth. Despite the economic slowdown, job expansion will increase as current economic development projects come on line. As a result payroll occupational license fees are expected to increase \$1.3 million, or 5.8%, over fiscal year 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 Robert J. Due, Finance Director, 638 Madison Avenue, Covington, Kentucky 41011. Questions or requests for additional information can also be e-mailed to [bdue@covingtonky.gov](mailto:bdue@covingtonky.gov).

**CITY OF COVINGTON, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
June 30, 2007

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Devou Properties, Inc.</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 7,568,490	\$ 1,065,727
Receivables		
Property Taxes	708,797	-
Intergovernmental	346,399	-
Notes	14,565,189	-
Accounts	8,119,092	187,598
Prepays	1,611	-
Due from Other Funds	303,650	-
Inventories	130,215	-
	<u>31,743,443</u>	<u>1,253,325</u>
<b>Noncurrent Assets</b>		
Deferred Charges, Net	368,677	-
Net Pension Obligation Asset	10,214,030	-
Land and Construction in Progress	16,420,352	-
Depreciable Capital Assets	149,443,111	17,184
Less Accumulated Depreciation	(99,463,025)	(7,655)
	<u>76,983,145</u>	<u>9,529</u>
Total Assets	<u>108,726,588</u>	<u>1,262,854</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable	1,418,446	93,308
Accrued Liabilities	2,275,062	5,527
Accrued Interest Payable	305,055	-
Unearned Revenue	147,400	350,400
Current Portion of Accumulated Compensated Absences	1,156,016	-
Current Portion of Capital Lease Obligations	2,355,842	-
Current Portion of Bonds and Notes Payable	5,597,657	-
	<u>13,255,478</u>	<u>449,235</u>
<b>Noncurrent Liabilities</b>		
Noncurrent Portion of Capital Lease Obligations	13,796,860	-
Noncurrent Portion of Bonds and Notes Payable	23,789,951	-
	<u>37,586,811</u>	<u>-</u>
Total Liabilities	<u>50,842,289</u>	<u>449,235</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	39,709,313	9,529
Restricted for Debt Service	888,123	-
Unrestricted	17,286,863	804,090
	<u>57,884,299</u>	<u>813,619</u>
<b>Total Net Assets</b>	<u>\$ 57,884,299</u>	<u>\$ 813,619</u>

See accompanying notes

**CITY OF COVINGTON, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Unit</u>
<b>Primary Government</b>						
<b>Governmental Activities:</b>						
General Governmen	\$ 6,975,709	\$ 1,096,558	\$ 35,727	\$ 285,515	\$ (5,557,909)	
Police	14,873,868	331,579	877,860	77,483	(13,586,946)	
Fire	13,595,531	1,073,548	-	265,186	(12,256,797)	
General Services	6,001,966	1,170,789	275,050	464,277	(4,091,850)	
Recreation	2,350,548	-	-	-	(2,350,548)	
Code Enforcement and Economic Developmen	9,345,867	114,177	7,651,587	187,423	(1,392,680)	
Parking Garage	734,401	1,041,332	-	-	306,931	
Interest on Long-Term Deb	1,872,816	-	-	-	(1,872,816)	
Total Governmental Activities:	<u>55,750,706</u>	<u>4,827,983</u>	<u>8,840,224</u>	<u>1,279,884</u>	<u>(40,802,615)</u>	
<b>Total Primary Government</b>	<u>\$ 55,750,706</u>	<u>\$ 4,827,983</u>	<u>\$ 8,840,224</u>	<u>\$ 1,279,884</u>	<u>(40,802,615)</u>	
<b>Component Unit</b>						
Devou Properties, Inc	<u>\$ 475,432</u>	<u>\$ 767,056</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 291,624</u>
<b>General revenues</b>						
Taxes						
Real Property Taxes, Levied for General Purpose					5,590,772	-
Personal Property Taxes, Levied for General Purpose					553,057	-
Public Service Taxes					1,978,504	-
Taxes, Levied for Bank Deposits					59,042	-
Insurance Premium Taxes					5,242,337	-
Payroll Taxes					21,656,929	-
Net Profits Taxes					2,959,729	-
Other Taxes					552,641	-
Investment Earnings					389,885	54,044
Miscellaneous					2,225,594	31,777
Special Item - Gain on Sale of Capital Asset					214,010	-
Total General Revenues and Special Item					<u>41,422,500</u>	<u>85,821</u>
Change in Net Assets					619,885	377,445
<b>Net Assets June 30, 2006, as Restated</b>					<u>57,264,414</u>	<u>436,174</u>
<b>Net Assets June 30, 2007</b>					<u>\$ 57,884,299</u>	<u>\$ 813,619</u>

See accompanying notes:

**CITY OF COVINGTON, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007**

	<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>
<b>Assets</b>						
Cash and Cash Equivalents	\$ 4,243,034	\$ -	\$ 57,863	\$ 1,580,959	\$ 1,241,520	\$ 7,123,376
Receivables						
Taxes	675,437	-	-	-	33,360	708,797
Intergovernmental	-	165,375	36,736	-	144,287	346,398
Notes	-	7,977,671	4,215,449	-	2,372,069	14,565,189
Accounts	6,467,221	-	20,931	19,913	1,611,027	8,119,092
Inventories	130,215	-	-	-	-	130,215
Due from Other Funds	1,529,284	1,452	14,433	1,631	3,256,383	4,803,183
Prepays	1,611	-	-	-	-	1,611
<b>Total Assets</b>	<u>\$ 13,046,802</u>	<u>\$ 8,144,498</u>	<u>\$ 4,345,412</u>	<u>\$ 1,602,503</u>	<u>\$ 8,658,646</u>	<u>\$ 35,797,861</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$ 881,089	\$ 87,342	\$ 8,733	\$ 49,765	\$ 385,758	\$ 1,412,687
Accrued Liabilities	1,279,230	-	-	-	-	1,279,230
Tax Anticipation Notes	3,500,000	-	-	-	-	3,500,000
Interest Payable	144,056	-	-	-	-	144,056
Due to Other Funds	3,781,073	79,485	33	-	2,425,861	6,286,452
Deferred Revenue	2,784,423	7,977,671	4,215,449	33,532	2,416,005	17,427,080
<b>Total Liabilities</b>	<u>12,369,871</u>	<u>8,144,498</u>	<u>4,224,215</u>	<u>83,297</u>	<u>5,227,624</u>	<u>30,049,505</u>
<b>Fund Balances</b>						
Reserved for:						
Prepays	1,611	-	-	-	-	1,611
Unreserved						
Undesignated, Reported In						
General Fund	675,320	-	-	-	-	675,320
Special Revenue Funds	-	-	121,197	1,519,206	2,073,169	3,713,572
Capital Projects Funds	-	-	-	-	469,730	469,730
Debt Service Funds	-	-	-	-	888,123	888,123
<b>Total Fund Balances</b>	<u>676,931</u>	<u>-</u>	<u>121,197</u>	<u>1,519,206</u>	<u>3,431,022</u>	<u>5,748,356</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 13,046,802</u>	<u>\$ 8,144,498</u>	<u>\$ 4,345,412</u>	<u>\$ 1,602,503</u>	<u>\$ 8,658,646</u>	<u>\$ 35,797,861</u>

See accompanying notes

**CITY OF COVINGTON, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO**  
**THE STATEMENT OF NET ASSETS**  
**June 30, 2007**

**Total Fund Balance - Governmental Fund:** \$ 5,748,356

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	\$ 165,863,463	
Accumulated Depreciation	<u>(99,463,025)</u>	66,400,438

Certain other long-term assets are not available to pay current period expenditures and are therefore deferred in the funds. 17,279,684

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:	445,114	
Accounts Receivable	-	
Due From Other Funds	1,786,919	
Accounts Payable	(5,762)	
Estimated Liability for Claims	(995,832)	
Due to Other Funds	<u>-</u>	1,230,439

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. 368,677

Net pension obligation asset represents contributions made to the City's pension funds in excess of the actuarially required contribution. The excess contributions are capitalized and amortized. 10,214,030

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. (160,999)

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	25,887,608	
Capital Lease Obligations Payable	16,152,702	
Compensated Absences Payable	<u>1,156,016</u>	<u>(43,196,326)</u>

**Total Net Assets - Governmental Activities:** **\$ 57,884,299**

See accompanying notes.

**CITY OF COVINGTON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2007**

	<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>
<b>Revenues</b>						
Taxes	\$ 13,004,339	\$ -	\$ -	\$ -	\$ 549,921	\$ 13,554,260
Licenses and Permits	24,897,197	-	-	-	-	24,897,197
Intergovernmental	288,295	1,948,733	315,705	6,518,612	2,132,744	11,204,089
Charges for Services	3,794,154	-	-	-	310,016	4,104,170
Fines and Forfeitures	711,786	-	-	-	-	711,786
Investment Earnings	112,006	-	10,027	81,248	127,255	330,536
Miscellaneous	423,478	960,450	322,442	29,572	606,430	2,342,372
<b>Total Revenues</b>	<u>43,231,255</u>	<u>2,909,183</u>	<u>648,174</u>	<u>6,629,432</u>	<u>3,726,366</u>	<u>57,144,410</u>
<b>Expenditures</b>						
<b>Current</b>						
General Government	2,664,224	-	-	-	428,294	3,092,518
Police	13,749,466	-	-	-	609,966	14,359,432
Fire	12,267,267	-	-	-	722,197	12,989,464
General Services	5,292,360	-	-	-	-	5,292,360
Recreation	2,309,959	-	-	-	-	2,309,959
Code Enforcement and Economic Development	1,228,899	1,354,171	402,493	5,601,097	512,249	9,098,909
Parking Garages	734,401	-	-	-	-	734,401
Debt Service						
Principal	638,342	67,000	-	-	2,022,643	2,727,985
Interest and Other Charges	260,096	36,658	-	-	1,404,469	1,701,223
Capital Outlay	-	1,197,354	190,114	-	1,870,153	3,257,621
<b>Total Expenditures</b>	<u>39,145,014</u>	<u>2,655,183</u>	<u>592,607</u>	<u>5,601,097</u>	<u>7,569,971</u>	<u>55,563,872</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>4,086,241</u>	<u>254,000</u>	<u>55,567</u>	<u>1,028,335</u>	<u>(3,843,605)</u>	<u>1,580,538</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	764,000	-	-	-	5,405,710	6,169,710
Capital Lease Acquisitions	-	-	-	-	1,630,000	1,630,000
Transfers Out	(4,846,715)	(254,000)	-	-	(1,562,314)	(6,663,029)
<b>Total Other Financing Sources (Uses)</b>	<u>(4,082,715)</u>	<u>(254,000)</u>	<u>-</u>	<u>-</u>	<u>5,473,396</u>	<u>1,136,681</u>
<b>Special Item</b>						
Proceeds from Sale of Capital Assets	-	-	-	-	239,660	239,660
<b>Net Change in Fund Balances</b>	3,526	-	55,567	1,028,335	1,869,451	2,956,879
<b>Fund Balance July 1, 2006</b>	673,405	-	65,630	490,871	1,561,571	2,791,477
<b>Fund Balance June 30, 2007</b>	<u>\$ 676,931</u>	<u>\$ -</u>	<u>\$ 121,197</u>	<u>\$ 1,519,206</u>	<u>\$ 3,431,022</u>	<u>\$ 5,748,356</u>

See accompanying notes

**CITY OF COVINGTON, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2007**

**Change in Fund Balances - Total Governmental Funds** \$ 2,956,879

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	\$ (4,427,915)	
Capital Outlays	<u>2,978,514</u>	(1,449,401)

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. (25,650)

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. (980,445)

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. 2,727,985

The Statement of Activities reports annual pension cost, which includes the actuarially required contribution along with an interest factor and adjustment of the net pension obligation asset. (1,135,169)

Accrued interest not reflected on Governmental funds. 12,341

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. (113,152)

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. (1,630,000)

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. 303,314

**Total Change in Net Assets - Governmental Activities** \$ 619,885

See accompanying notes.

**CITY OF COVINGTON, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
June 30, 2007

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 445,114
Accounts Receivable	-
Due from Other Funds	<u>1,786,919</u>
Total Assets	<u>2,232,033</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts Payable	5,762
Estimated Liability for Claims	995,832
Due to Other Funds	<u>-</u>
Total Liabilities	<u>1,001,594</u>
<b>Net Assets</b>	
Unrestricted	\$ <u><u>1,230,439</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, 2007**

	<u><b>Governmental Activities</b></u> <u><b>Internal Service Funds</b></u>
<b>Operating Revenues</b>	
Insurance Premium Payments	\$ 4,723,205
Other Operating Revenues	<u>8,754</u>
Total Operating Revenues	<u>4,731,959</u>
<b>Operating Expenses</b>	
Contractual Services	550,579
Claims and Judgments	<u>4,435,279</u>
Total Operating Expenses	<u>4,985,858</u>
Operating Loss	(253,899)
<b>Non-Operating Revenues</b>	
Investment Income	<u>62,013</u>
Loss Before Transfers	(191,886)
Transfers In	<u>495,200</u>
Change in Net Assets	303,314
<b>Net Assets July 1, 2006</b>	<u>927,125</u>
<b>Net Assets June 30, 2007</b>	<u><u>\$ 1,230,439</u></u>

See accompanying notes.

**CITY OF COVINGTON, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2007**

	<u><b>Governmental Activities Internal Service Funds</b></u>
<b>Cash Flows From Operating Activities</b>	
Cash Received from Customers	\$ 3,582,350
Cash Received from Other Activities	8,754
Cash Paid for Claims	<u>(4,490,605)</u>
Net Cash Used by Operating Activities	(899,501)
<b>Cash Flows from Non-Capital Financing Activities</b>	
Transfer from Other Funds	495,200
<b>Cash Flows from Investing Activities</b>	
Interest Income	<u>62,013</u>
Net Change in Cash	(342,288)
<b>Cash and Cash Equivalents July 1, 2006</b>	<u>787,402</u>
<b>Cash and Cash Equivalents June 30, 2007</b>	<u><u>\$ 445,114</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>	
Operating Loss	\$ (253,899)
Change in Assets and Liabilities	
Accounts Receivable	11,403
Due from Other Funds	(441,357)
Accounts Payable	(2,663)
Estimated Liability Claims	497,916
Due to Other Funds	<u>(710,901)</u>
<b>Net Cash Used by Operating Activities</b>	<u><u>\$ (899,501)</u></u>

See accompanying notes.

**CITY OF COVINGTON, KENTUCKY**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2007**

	<b>Fiduciary Funds</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 1,142,386
Investments - Mutual Funds	21,732,762
Notes Receivable	140,305
Total Assets	23,015,453
<b>Liabilities</b>	
Accounts Payable	3,721
Interfund Loans	303,650
Total Liabilities	307,371
<b>Net Assets</b>	
Held in Trust for Pension Benefits	\$ 22,708,082

See accompanying notes.

**CITY OF COVINGTON, KENTUCKY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**Year Ended June 30, 2007**

	<u>Fiduciary Funds</u>
<b>Additions</b>	
Contributions	
Employee Contributions	\$ 8,627
Miscellaneous	-
Impounding Lot	<u>139,668</u>
Total Revenues	<u>148,295</u>
Investment Earnings	
Interest and Dividends	800,763
Net Appreciation in Fair Value of Investments	<u>2,743,139</u>
Total Investment Earnings	<u>3,543,902</u>
Total Additions	<u>3,692,197</u>
<b>Deductions</b>	
Benefit Payments	2,505,516
Administration	89,187
Impounding Lot	<u>13,227</u>
Total Deductions	<u>2,607,930</u>
Change in Net Assets	1,084,267
<b>Net Assets July 1, 2006</b>	<u>21,623,815</u>
<b>Net Assets June 30, 2007</b>	<u><u>\$ 22,708,082</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, 2006 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 another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

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

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

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

The government reports the following proprietary funds:

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

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

The City reports the following major governmental funds:

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

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

Assets, Liabilities and Net Assets or Equity:

Cash and Cash Equivalents

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

The City is authorized by state statute to invest in:

- Obligations of the United States and of its Agencies and Instrumentalities
- Certificates of Deposits
- 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, 2007 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, 2007 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 a propriety fund. These assets are reported in the governmental activities column of the government-wide statement of net assets.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure, such as streets, traffic signals and signs are capitalized, including infrastructure acquired prior to the implementation of GASB Statement 34. 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 not recording a net pension obligation asset made in prior periods. The net pension obligation (asset) incurred as a result of the issuance of pension obligation bonds was not recorded on the statement of net assets.

As a result of correcting the error in not recording the net pension obligation (asset), net assets as of July 1, 2006 is reconciled as follows:

	Governmental Activities
Net assets, July 1, 2006, as Previously Reported	\$ 45,915,215
Error in Not Recording Net Pension Obligation Asset	11,349,199
Net Assets, July 1, 2006, as Restated	\$ 57,264,414

**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 fund had expenditures in excess of legally adopted appropriations for the year ended June 30, 2007:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Arts District	\$ 34,050	\$ 36,241	\$ 2,191

**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, 2007, \$100,000 of the City's deposits are insured by the FDIC, and \$8,447,370 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, 2007, the City did not have any deposits in excess of insured and/or collateralized amounts.

As of December 31, 2006, Devou Properties, Inc. (a component unit of the City) had \$965,727 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, 2007, 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, 2007, the City had \$8,447,370 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, 2007 was as follows:

	Balance Beginning of Year	Additions	Retirements/ Deletions	Balance End of Year
<b><u>Governmental Activities</u></b>				
Capital Assets Not Being Depreciated				
Land	\$ 13,743,955	\$ 658,300	\$ 25,650	\$ 14,376,605
Land Improvements	1,159,362	-	-	1,159,362
Construction in Progress	295,402	588,983	-	884,385
Total Capital Assets Not Being Depreciated	<u>15,198,719</u>	<u>1,247,283</u>	<u>25,650</u>	<u>16,420,352</u>
Depreciable Capital Assets				
Buildings	23,354,973	-	-	23,354,973
Building Improvements	8,062,010	235,916	-	8,297,926
Infrastructure	103,464,550	900,039	-	104,364,589
Machinery and Equipment	4,655,153	109,995	21,150	4,743,998
Vehicles	8,230,166	485,281	33,822	8,681,625
Total Depreciable Capital Assets	<u>147,766,852</u>	<u>1,731,231</u>	<u>54,972</u>	<u>149,443,111</u>
Less: Accumulated Depreciation				
Buildings	6,977,035	585,418	-	7,562,453
Building Improvements	7,197,432	220,761	-	7,418,193
Infrastructure	69,270,197	2,951,755	-	72,221,952
Machinery and Equipment	3,996,440	208,499	21,150	4,183,789
Vehicles	7,648,978	461,482	33,822	8,076,638
Total Accumulated Depreciation	<u>95,090,082</u>	<u>4,427,915</u>	<u>54,972</u>	<u>99,463,025</u>
Depreciable Capital Assets, Net	<u>52,676,770</u>	<u>(2,696,684)</u>	<u>-</u>	<u>49,980,086</u>
Total Governmental Activities Capital Assets - Net	<u>\$ 67,875,489</u>	<u>\$ (1,449,401)</u>	<u>\$ 25,650</u>	<u>\$ 66,400,438</u>
<b><u>Component Unit</u></b>				
Devou Properties, Inc.				
Depreciable Capital Assets				
Property and Equipment	\$ 15,908	\$ 1,276	\$ -	\$ 17,184
Less: Accumulated Depreciation				
Property and Equipment	<u>4,457</u>	<u>3,198</u>	<u>-</u>	<u>7,655</u>
Total Component Unit Capital Assets - Net	<u>\$ 11,451</u>	<u>\$ (1,922)</u>	<u>\$ -</u>	<u>\$ 9,529</u>

\*Depreciation was charged to functions as follows:

Governmental Activities	
Administration	\$ 3,717,258
Police	310,323
Fire	262,534
General Services	97,211
Parks and Recreation	<u>40,589</u>
Total Governmental Activities Depreciation Expense	<u>\$ 4,427,915</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, 2007:

Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Improvement Fund	\$ 11,089
	HOME Program	33
	Police and Fire Incentive Pay	79,713
	Police and Firemen's Pension	302,731
	Employee Pension	919
	CDBG	79,485
	KLC Series 2002	1,052,314
	Police Forfeiture	3,000
		<u>1,529,284</u>
KLC Series 2002	Capital Improvement Fund	1,052,314
CDBG	Newport Steel	1,452
Housing Voucher	General	1,631
Capital Improvement Fund	Renaissance Grant	190,294
Renaissance Grant	General	87,121
Renaissance Grant	Capital Improvement Fund	33,642
Liability Self Insurance	General	1,172,330
Newport Steel	General	28,896
City Hall Operations	General	49,330
Investor Program	Arts District	2,043
HOME Program	General	14,433
Sewer Maintenance	General	800,000
Medical Self Insurance	General	614,589
Arts District	General	12,012
501 Main Street Operations	General	30,467
Working Capital Reserve	General	970,264

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	\$ 3,082,617
CAD	General	510,000
CDBG	General	254,000
General	City Hall Operations	32,579
General	Renaissance Grant	63,315
General	501 Main Street Operations	71,980
General	Police and Fire Incentive Pay	1,880
General	Devou Park Maintenance	10,000
General	Liability Self Insurance	495,200
Capital Improvement Fund	KLC Series 2002	1,052,314
General	Capital Improvement	690,970
General	Working Capital Reserve	400,000
		<u>\$ 6,664,855</u>

**NOTE 7 – SHORT TERM DEBT**

On July 1, 2006 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 4.15% and matured on June 30, 2007. The note was not actually repaid until July 2, 2007, and therefore is reported as a liability in the governmental funds balance sheet, along with accrued interest on the note of \$144,056. Repayment was made from the general fund.

During the year ended June 30, 2007, the following changes occurred in the City's short term debt:

<u>Debt Issue</u>	<u>Balance July 1, 2006</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2007</u>
TRAN	\$ <u>          -</u>	\$ <u>3,500,000</u>	\$ <u>          -</u>	\$ <u>3,500,000</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, 2007.

	<u>Capital Assets</u>
Buildings	\$ 8,664,929
Building Improvements	510,836
Equipment	161,320
Land	6,702,070
Infrastructure	989,002
Vehicles	<u>838,647</u>
Total Cost	17,866,804
Accumulated Depreciation	<u>1,415,961</u>
Net Book Value	\$ <u>16,450,843</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, 2007.

<u>Fiscal Years Ending June 30,</u>	<u>Amount</u>
2008	\$ 2,866,286
2009	1,231,663
2010	1,251,634
2011	1,261,719
2012	1,278,696
2013-2017	6,370,302
2018-2022	5,283,230
2023-2027	<u>566,363</u>
Total Minimum Lease Payments	20,109,893
Less: Amount Representing Interest	<u>(3,957,191)</u>
Present Value of Future Minimum Lease Payments	16,152,702
Less Current Portion	<u>2,355,842</u>
Non Current Portion	<u>\$ 13,796,860</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, 2007 is as follows:

Cost	\$ 1,500,000
Carrying Amount	\$ 1,450,000
Current Depreciation	\$ 37,500

## NOTE 8 – GENERAL LONG-TERM DEBT (Continued)

## Mortgage Bonds and Notes Payable

The following schedule summarizes outstanding long-term mortgage bonds and notes payable at June 30, 2007.

	Interest Rates	Maturity Dates June 30,	Amounts	
			Issued	Outstanding
Mortgage Bonds				
1989 Series A	11.25 %	2010	\$ 587,737	\$ 134,133
1990 Series A	6.20	2010	460,000	-
2003 Series	2.00-4.50	2018	4,996,000	4,067,000
KY Infrastructure Auth.	4.55	2014	460,327	196,663
Sanitation District	0.00	2009	3,059,056	611,812
HUD 108	5.13	2015	1,000,000	598,000
2004 Series	Variable	2030	14,410,000	13,795,000
2005 Series	3.00-3.30	2013	7,405,000	6,485,000

Interest on the variable rate 2004 Series Pension Obligation Bonds is paid at the rate of interest determined by the Remarketing Agent, determined on a weekly basis. The rate was 5.41% as of June 30, 2007.

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, 2007 are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2008	\$ 2,097,657	\$ 1,068,561	\$ 3,166,218
2009	2,168,241	1,057,895	3,226,136
2010	1,851,745	988,184	2,839,929
2011	1,917,505	919,394	2,836,899
2012	1,981,908	845,659	2,827,567
2013 - 2017	5,809,552	3,301,110	9,110,662
2018 - 2022	3,446,000	2,221,373	5,667,373
2023 - 2027	3,825,000	1,292,855	5,117,855
2028 - 2032	<u>2,790,000</u>	<u>231,278</u>	<u>3,021,278</u>
Totals	<u>\$ 25,887,608</u>	<u>\$ 11,926,309</u>	<u>\$ 37,813,917</u>

## NOTE 8 - GENERAL LONG-TERM DEBT (Continued)

## Changes in Noncurrent Liabilities

During the year ended June 30, 2007, the following changes occurred in noncurrent liabilities:

<u>Debt Issue</u>	<u>Balance July 1, 2006</u>	<u>Additions of New Debt</u>	<u>Repayments and Defeased</u>	<u>Balance June 30, 2007</u>	<u>Amounts Expected to be Paid in One Year</u>
Mortgage Bonds and Notes					
1989 Series A	\$ 189,652	\$ -	\$ 55,519	\$ 134,133	\$ 62,097
1990 Series A	26,492	-	26,492	-	-
2003 Refunding	4,371,000	-	304,000	4,067,000	311,000
HUD 108	665,000	-	67,000	598,000	67,000
Sanitation District	917,717	-	305,905	611,812	305,906
KY Infrastructure Auth.	222,144	-	25,481	196,663	26,654
2005 Refunding Bonds	7,405,000	-	920,000	6,485,000	995,000
2004 Series A	<u>14,110,000</u>	<u>-</u>	<u>315,000</u>	<u>13,795,000</u>	<u>330,000</u>
Total Mortgage Bonds and Notes	<u>27,907,005</u>	<u>-</u>	<u>2,019,397</u>	<u>25,887,608</u>	<u>2,097,657</u>
Capital Lease Obligations Infrastructure/Equipment	<u>15,231,290</u>	<u>1,630,000</u>	<u>708,588</u>	<u>16,152,702</u>	<u>2,355,842</u>
Compensated Absences	<u>1,042,864</u>	<u>1,127,676</u>	<u>1,014,524</u>	<u>1,156,016</u>	<u>1,156,016</u>
Total Noncurrent Liabilities	<u>\$ 44,181,159</u>	<u>\$ 2,757,676</u>	<u>\$ 3,742,509</u>	<u>\$ 43,196,326</u>	<u>\$ 5,609,515</u>

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

## NOTE 8 – GENERAL LONG-TERM DEBT (Continued)

**Interest Rate Swap**

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

*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 \$665,532 as of June 30, 2007. 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, 2007, 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, 2007.

*Swap Payments and Associated Debt.* For the year ended June 30, 2007, the City received \$106,095 on the swap agreement. Using rates as of June 30, 2007, 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		
2008	\$ 330,000	\$ 679,110	\$ (106,700)	\$ 902,410
2009	350,000	718,989	(112,965)	956,024
2010	365,000	699,648	(109,926)	954,722
2011	385,000	679,361	(106,739)	957,622
2012	405,000	657,991	(103,381)	959,610
2013 - 2017	2,345,000	2,930,192	(243,143)	5,032,049
2018 - 2022	3,000,000	2,211,338	-	5,211,338
2023 - 2027	3,825,000	1,292,855	-	5,117,855
2028 - 2032	<u>2,790,000</u>	<u>231,278</u>	-	<u>3,021,278</u>
Totals	<u>\$ 13,795,000</u>	<u>\$ 10,100,762</u>	<u>\$ (782,854)</u>	<u>\$ 23,112,908</u>

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

**Conduit Debt Obligations**

During 2007, the City issued Industrial Revenue Bonds totaling \$9,275,000 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, 2007, there were four series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$63.7 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 \$1,230,439 at June 30, 2007 and is a designation of the Liability Self Insurance Fund retained earnings. The claims liability reported in the Fund at June 30, 2007, 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, 2005</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2006</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2007</u>
\$ -	\$ 30,752	\$ 30,752	\$ -	\$ 59,244	\$ 59,244	\$ -

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 \$995,832 reported in the fund at June 30, 2007, 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, 2007 were as follows:

<u>July 1, 2005</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2006</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2007</u>
\$ 497,916	\$ 4,789,825	\$ 4,789,825	\$ 497,916	\$ 4,376,035	\$ 3,878,119	\$ 995,832

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 of Covington maintains two single employer, defined benefit pension plans: Employees' Pension Plan and 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:

<u>Group</u>	<u>Employees' July 1, 2007</u>	<u>Police and Firemen's July 1, 2007</u>
Retirees and Beneficiaries Currently Receiving Benefits	66	100
Active Employees – Fully Vested	<u>2</u>	<u>-</u>
	<u>68</u>	<u>100</u>

**Employees' Pension Plan**

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

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

**NOTE 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**

Years Ended June 30,	Employees' Pension Plan			Police & Firemen’s Pension Plan		
	Annual Required Contribution	Contributions Made	Percentage Contributed	Annual Required Contribution	Contributions Made	Percentage Contributed
2007	\$ 146,203	\$ -	- %	\$ 60,974	\$ -	- %
2006	-	142,034	N/A	77,977	-	-
2005	709,262	4,535,000	639	1,422,221	9,740,000	684

During the year ended June 30, 2005, the City issued Pension Obligation Bonds for the purpose of funding both Pension Plans. As a result, the City has a net pension obligation asset on the government-wide statement of net assets. As of June 30, 2007, the Plan assets in both the Police & Firemen’s Pension Plan and the Employees’ Pension Plan exceeded the liabilities in each plan. Therefore, the City did not have an unfunded accrued liability in the Police & Firemen’s Pension Plan or the Employees’ Pension Plan. However, the City is required by state statute to contribute impounding lot income into the Police & Firemen’s Pension Plan each year.

**Funded Status and 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]
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Employees’ Pension Plan

2007	\$ 6,650,730	\$ 6,605,645	\$ (45,085)	101 %	\$ 114,311	N/A %
2006	6,471,713	7,294,905	823,192	88	103,123	798
2004	2,905,506	7,835,060	4,929,554	37	110,524	4460

Police & Firemen’s Pension Plan

2007	\$ 16,057,288	\$ 15,913,455	\$ (143,833)	101 %	\$ N/A	N/A %
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

**NOTE 10 – EMPLOYEE RETIREMENT PLAN (Continued)**

**Annual Pension Cost and Net Pension Obligation**

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

	<u>Employees' Pension Plan</u>	<u>Police &amp; Firemen's Pension Plan</u>
Annual Required Contribution (ARC)	\$ 146,203	\$ 60,974
Interest on Net Pension Obligation	(277,301)	(573,889)
Adjustment to ARC	<u>579,623</u>	<u>1,199,559</u>
Annual Pension Cost	448,525	686,644
Actual Contributions Made	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Pension Obligation	448,525	686,644
Net Pension Obligation (Asset) – Beginning of Year	<u>(3,697,347)</u>	<u>(7,651,852)</u>
Net Pension Obligation (Asset) – End of Year	<u>\$(3,248,822)</u>	<u>\$(6,965,208)</u>

**Three-Year Trend Information**

<u>Years Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Change In Net Pension Obligation</u>
<u>Employees' Pension Plan</u>			
06/30/07	\$ 448,525	- %	\$ 448,525
06/30/06	270,426	52.5	128,392
06/30/05	709,262	639.0	(3,825,738)
<u>Police &amp; Firemen's Pension Plan</u>			
06/30/07	\$ 626,644	- %	\$ 686,644
06/30/06	665,927	-	665,927
06/30/05	1,422,221	684.0	(8,317,779)

**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' Pension Plan</u>	<u>Police &amp; Firemen's Pension Plan</u>
Valuation Date	July 1, 2007	July 1, 2007
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, 2007, 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, 2007, participating employers contributed 13.19% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

**NOTE 10 – EMPLOYEE RETIREMENT PLAN (Continued)**

*Hazardous Contributions* – For the year ended June 30, 2007, plan members were required to contribute 8% of their annual creditable compensation. The City was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2007, participating employers contributed 28.21% of each employee's creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

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

<u>Years</u>	<u>Required Contribution</u>	<u>Actual Percentage Contributed</u>
2007	\$ 4,564,773	100 %
2006	3,993,548	100
2005	3,405,251	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 \$3,845 to the plan for the year ended December 31, 2006.

**NOTE 11 – SPECIAL ITEM**

During the year ended June 30, 2007, the City sold some major capital assets, with proceeds from the sale totaling \$239,660. Proceeds from these transactions have been treated as a special item in the Governmental Funds.

## REQUIRED SUPPLEMENTARY INFORMATION

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

**CITY OF COVINGTON, KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (WITH VARIANCES)**  
**GENERAL FUND**  
**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes				
Real Property	\$ 4,983,909	\$ 4,983,909	\$ 5,171,399	\$ 187,490
Personal Property	588,000	588,000	553,057	(34,943)
Bank Deposit	60,000	60,000	59,042	(958)
Franchise	2,025,000	2,025,000	1,978,504	(46,496)
Insurance Premium	4,900,000	4,900,000	5,242,337	342,337
Licenses and Permits				
Payroll License Fees	22,357,940	22,357,940	21,656,929	(701,011)
Net Profits License Fees	2,500,000	2,500,000	2,959,729	459,729
Night Club Permits	135,000	135,000	125,000	(10,000)
Liquor and Beer Licenses	150,000	150,000	144,321	(5,679)
Building and Zoning	-	-	5,145	5,145
Dog Licenses	8,000	8,000	6,073	(1,927)
Intergovernmental	505,000	505,000	288,295	(216,705)
Fines and Forfeitures	595,000	595,000	711,786	116,786
Charges for Services				
Waste Fees	1,185,645	1,185,645	1,170,789	(14,856)
Parking	1,075,000	1,075,000	1,041,332	(33,668)
Squad Runs	975,000	1,047,337	1,073,548	26,211
Rental Property	340,000	340,000	398,067	58,067
Other	117,000	117,000	110,418	(6,582)
Interest	67,200	67,200	112,006	44,806
Miscellaneous	296,000	1,031,580	423,478	(608,102)
<b>Total Revenues</b>	<b>42,863,694</b>	<b>43,671,611</b>	<b>43,231,255</b>	<b>(440,356)</b>
<b>Expenditures</b>				
General Government				
Administration Department				
Payroll	633,815	633,815	612,058	21,757
Employee Benefits	292,182	292,182	263,566	28,616
Contractual Services	395,346	395,346	196,410	198,936
Materials and Supplies	46,015	46,015	48,727	(2,712)
Miscellaneous	-	-	1,034	(1,034)
<b>Total Administration Department</b>	<b>1,367,358</b>	<b>1,367,358</b>	<b>1,121,795</b>	<b>245,563</b>
Legal Department				
Payroll	235,149	235,149	174,648	60,501
Employee Benefits	103,842	103,842	77,874	25,968
Contractual Services	48,700	48,700	66,333	(17,633)
Materials and Supplies	19,249	19,249	12,376	6,873
Miscellaneous	-	-	-	-
<b>Total Legal Department</b>	<b>406,940</b>	<b>406,940</b>	<b>331,231</b>	<b>75,709</b>
Finance Department				
Payroll	539,948	539,948	513,067	26,881
Employee Benefits	268,118	268,118	258,284	9,834
Contractual Services	423,216	423,216	416,970	6,246
Materials and Supplies	26,350	26,350	22,877	3,473
Miscellaneous	-	-	-	-
<b>Total Finance Department</b>	<b>1,257,632</b>	<b>1,257,632</b>	<b>1,211,198</b>	<b>46,434</b>
<b>Total General Government</b>	<b>3,031,930</b>	<b>3,031,930</b>	<b>2,664,224</b>	<b>367,706</b>

(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, 2007**  
**(Continued)**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Police				
Payroll	\$ 8,000,693	\$ 7,929,873	\$ 7,686,113	\$ 243,760
Employee Benefits	5,001,988	4,754,071	4,633,186	120,885
Contractual Services	803,605	803,605	928,789	(125,184)
Materials and Supplies	404,805	404,805	501,378	(96,573)
Miscellaneous	-	-	-	-
Total Police	<u>14,211,091</u>	<u>13,892,354</u>	<u>13,749,466</u>	<u>142,888</u>
Fire				
Payroll	6,896,981	7,232,561	7,193,295	39,266
Employee Benefits	4,331,482	4,331,482	4,335,701	(4,219)
Contractual Services	640,810	674,558	482,286	192,272
Materials and Supplies	301,857	301,857	255,985	45,872
Miscellaneous	-	-	-	-
Total Fire	<u>12,171,130</u>	<u>12,540,458</u>	<u>12,267,267</u>	<u>273,191</u>
General Services				
Payroll	1,854,657	1,854,657	1,745,427	109,230
Employee Benefits	1,074,382	1,074,382	930,277	144,105
Contractual Services	1,959,276	1,958,776	1,935,704	23,072
Materials and Supplies	617,180	617,680	680,499	(62,819)
Miscellaneous	-	-	453	(453)
Total General Services	<u>5,505,495</u>	<u>5,505,495</u>	<u>5,292,360</u>	<u>213,135</u>
Recreation				
Payroll	1,212,009	1,212,009	1,122,429	89,580
Employee Benefits	586,462	586,462	600,815	(14,353)
Contractual Services	434,000	434,000	343,952	90,048
Materials and Supplies	262,972	262,972	242,763	20,209
Miscellaneous	-	-	-	-
Total Recreation	<u>2,495,443</u>	<u>2,495,443</u>	<u>2,309,959</u>	<u>185,484</u>
Code Enforcement and Economic Development				
Code Enforcement				
Payroll	422,133	422,133	414,022	8,111
Employee Benefits	222,913	222,913	234,792	(11,879)
Contractual Services	129,688	129,688	106,313	23,375
Materials and Supplies	22,000	22,000	21,678	322
Miscellaneous	-	-	-	-
Total Code Enforcement	<u>796,734</u>	<u>796,734</u>	<u>776,805</u>	<u>19,929</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, 2007**  
**(Continued)**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Economic Development				
Payroll	\$ 236,052	\$ 236,052	\$ 242,546	\$ (6,494)
Employee Benefits	102,022	102,022	105,008	(2,986)
Contractual Services	122,390	122,390	97,722	24,668
Materials and Supplies	11,900	11,900	6,818	5,082
Miscellaneous	-	-	-	-
Total Economic Development	<u>472,364</u>	<u>472,364</u>	<u>452,094</u>	<u>20,270</u>
Total Code Enforcement and Economic Development	<u>1,269,098</u>	<u>1,269,098</u>	<u>1,228,899</u>	<u>40,199</u>
Parking Garages				
Contractual Services	732,129	732,129	725,785	6,344
Materials and Supplies	7,200	7,200	8,616	(1,416)
Total Parking Garages	<u>739,329</u>	<u>739,329</u>	<u>734,401</u>	<u>4,928</u>
Capital Outlay				
General Government	-	-	-	-
Police	-	-	-	-
Fire	-	-	-	-
General Services	-	-	-	-
Housing	-	-	-	-
Recreation	-	-	-	-
Total Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Service				
Principal	299,183	529,183	638,342	(109,159)
Interest	175,000	417,345	260,096	157,249
Total Debt Service	<u>474,183</u>	<u>946,528</u>	<u>898,438</u>	<u>48,090</u>
Total Expenditures	<u>39,897,699</u>	<u>40,420,635</u>	<u>39,145,014</u>	<u>1,275,621</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>2,965,995</u>	<u>3,250,976</u>	<u>4,086,241</u>	<u>835,265</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	929,000	962,748	764,000	(198,748)
Proceeds from Capital Leases	-	-	-	-
Transfers Out	(4,438,153)	(4,213,725)	(4,846,715)	(632,990)
Total Other Financing Sources (Uses)	<u>(3,509,153)</u>	<u>(3,250,977)</u>	<u>(4,082,715)</u>	<u>(831,738)</u>
Net Change in Fund Balance	(543,158)	(1)	3,526	3,527
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>673,405</u>	<u>673,405</u>
<b>Fund Balance June 30, 2007</b>	<u>\$ (543,158)</u>	<u>\$ (1)</u>	<u>\$ 676,931</u>	<u>\$ 676,932</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 1,864,471	\$ 3,349,888	\$ 1,948,733	\$ (1,401,155)
Miscellaneous	503,658	503,658	960,450	456,792
Total Revenues	<u>2,368,129</u>	<u>3,853,546</u>	<u>2,909,183</u>	<u>(944,363)</u>
<b>Expenditures</b>				
Code Enforcement and Economic Development	1,286,471	1,760,989	1,354,171	406,818
Debt Service				
Principal	67,000	67,000	67,000	-
Interest and Other Charges	36,658	36,658	36,658	-
Capital Outlay	703,000	1,713,899	1,197,354	516,545
Total Expenditures	<u>2,093,129</u>	<u>3,578,546</u>	<u>2,655,183</u>	<u>923,363</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>275,000</u>	<u>275,000</u>	<u>254,000</u>	<u>(21,000)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	<u>(275,000)</u>	<u>(275,000)</u>	<u>(254,000)</u>	<u>21,000</u>
Net Change in Fund Balance	-	-	-	-
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance June 30, 2007</b>	<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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 507,229	\$ 1,457,229	\$ 315,705	\$ (1,141,524)
Investment Earnings	-	-	10,027	10,027
Miscellaneous	<u>210,000</u>	<u>210,000</u>	<u>322,442</u>	<u>112,442</u>
Total Revenues	<u>717,229</u>	<u>1,667,229</u>	<u>648,174</u>	<u>(1,019,055)</u>
<b>Expenditures</b>				
Code Enforcement and Economic Development	717,229	717,229	402,493	314,736
Capital Outlay	<u>-</u>	<u>950,000</u>	<u>190,114</u>	<u>759,886</u>
Total Expenditures	<u>717,229</u>	<u>1,667,229</u>	<u>592,607</u>	<u>1,074,622</u>
Net Change in Fund Balance	-	-	55,567	55,567
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>65,630</u>	<u>65,630</u>
<b>Fund Balance June 30, 2007</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 121,197</u></u>	<u><u>\$ 121,197</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 6,086,652	\$ 6,444,573	\$ 6,518,612	\$ 74,039
Investment Earnings	30,000	85,000	81,248	(3,752)
Miscellaneous	<u>-</u>	<u>-</u>	<u>29,572</u>	<u>29,572</u>
 Total Revenues	 <u>6,116,652</u>	 <u>6,529,573</u>	 <u>6,629,432</u>	 <u>99,859</u>
<b>Expenditures</b>				
Code Enforcement and Economic Development	6,002,505	6,629,573	5,601,097	1,028,476
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Expenditures	 <u>6,002,505</u>	 <u>6,629,573</u>	 <u>5,601,097</u>	 <u>1,028,476</u>
 Net Change in Fund Balance	 114,147	 (100,000)	 1,028,335	 1,128,335
 <b>Fund Balance July 1, 2006</b>	 <u>-</u>	 <u>-</u>	 <u>490,871</u>	 <u>490,871</u>
 <b>Fund Balance June 30, 2007</b>	 <u>\$ 114,147</u>	 <u>\$ (100,000)</u>	 <u>\$ 1,519,206</u>	 <u>\$ 1,619,206</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.

**Fire Department Grant Funds**

This fund was established to account for the revenues and expenditures related to grants received related to the fire department.

**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.

**Renaissance Grant Fund**

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

**Working Capital Reserve**

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

**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.

**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, 2007**

	Special Revenue Funds									
	Police and Fire Incentive	Newport Steel UDAG	Devou Park Maintenance	Investor Program	City Hall Operations	Fire Dept. Grant Fund	Arts District	501 Main Street Operations	Police Forfeiture	Police Block Grant
<b>Assets</b>										
Cash and Cash Equivalents	\$ 45,758	\$ 212,529	\$ 73,305	\$ 373,577	\$ 5,588	\$ -	\$ -	\$ -	\$ 292,769	\$ -
Receivables										
Taxes	-	-	-	-	-	-	-	-	-	-
Intergovernmental	33,955	-	-	-	-	-	-	-	-	-
Notes	-	1,338,243	-	1,033,826	-	-	-	-	-	-
Accounts	-	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	28,896	-	2,043	49,330	-	12,012	30,467	-	-
Prepays	-	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<u>\$ 79,713</u>	<u>\$ 1,579,668</u>	<u>\$ 73,305</u>	<u>\$ 1,409,446</u>	<u>\$ 54,918</u>	<u>\$ -</u>	<u>\$ 12,012</u>	<u>\$ 30,467</u>	<u>\$ 292,769</u>	<u>\$ -</u>
<b>Liabilities and Fund Balances</b>										
<b>Liabilities</b>										
Accounts Payable	\$ -	\$ 1,500	\$ -	\$ 15,528	\$ 54,918	\$ -	\$ -	\$ 9,827	\$ 478	\$ -
Accrued Liabilities	-	-	-	-	-	-	-	-	-	-
Due to Other Funds	79,713	1,452	-	-	-	-	2,043	-	3,000	-
Deferred Revenue	-	1,337,789	-	1,033,826	-	-	-	20,640	-	-
<b>Total Liabilities</b>	<u>79,713</u>	<u>1,340,741</u>	<u>-</u>	<u>1,049,354</u>	<u>54,918</u>	<u>-</u>	<u>2,043</u>	<u>30,467</u>	<u>3,478</u>	<u>-</u>
<b>Fund Balances</b>										
Reserved for										
Prepays	-	-	-	-	-	-	-	-	-	-
Unreserved										
Undesignated, Reported In										
Special Revenue Funds	-	238,927	73,305	360,092	-	-	9,969	-	289,291	-
Capital Projects Funds	-	-	-	-	-	-	-	-	-	-
Debt Service Funds	-	-	-	-	-	-	-	-	-	-
<b>Total Fund Balances</b>	<u>-</u>	<u>238,927</u>	<u>73,305</u>	<u>360,092</u>	<u>-</u>	<u>-</u>	<u>9,969</u>	<u>-</u>	<u>289,291</u>	<u>-</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 79,713</u>	<u>\$ 1,579,668</u>	<u>\$ 73,305</u>	<u>\$ 1,409,446</u>	<u>\$ 54,918</u>	<u>\$ -</u>	<u>\$ 12,012</u>	<u>\$ 30,467</u>	<u>\$ 292,769</u>	<u>\$ -</u>

**CITY OF COVINGTON, KENTUCKY**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**June 30, 2007**  
**(Continued)**

	Special Revenue Funds			Capital Projects	Debt Service Funds			Sewer Maintenance Fees	Non-Major Governmental Funds	
	CAD System	KLC Series 2002	Renaissance Grant Fund	Working Capital Reserve	Capital Improvement Fund	1990 First Mortgage Bonds	2004 Pension Obligation			2005 Refunding Bonds
<b>Assets</b>										
Cash and Cash Equivalents	\$ 97,961	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,760	\$ 9,949	\$ 31,324	\$ 1,241,520
Receivables										
Taxes	33,360	-	-	-	-	-	-	-	-	33,360
Intergovernmental	-	-	83,281	-	27,051	-	-	-	-	144,287
Notes	-	-	-	-	-	-	-	-	-	2,372,069
Accounts	-	-	10,000	-	1,600,432	-	395	200	-	1,611,027
Inventories	-	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	1,052,314	120,763	970,264	190,294	-	-	-	800,000	3,256,383
Prepays	-	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 131,321</b>	<b>\$ 1,052,314</b>	<b>\$ 214,044</b>	<b>\$ 970,264</b>	<b>\$ 1,817,777</b>	<b>\$ -</b>	<b>\$ 99,155</b>	<b>\$ 10,149</b>	<b>\$ 831,324</b>	<b>\$ 8,658,646</b>
<b>Liabilities and Fund Balances</b>										
<b>Liabilities</b>										
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 251,002	\$ -	\$ -	\$ -	\$ 52,505	\$ 385,758
Accrued Liabilities	-	-	-	-	-	-	-	-	-	-
Due to Other Funds	-	1,052,314	190,294	-	1,097,045	-	-	-	-	2,425,861
Deferred Revenue	-	-	23,750	-	-	-	-	-	-	2,416,005
<b>Total Liabilities</b>	<b>-</b>	<b>1,052,314</b>	<b>214,044</b>	<b>-</b>	<b>1,348,047</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52,505</b>	<b>5,227,624</b>
<b>Fund Balances</b>										
Reserved for										
Prepays	-	-	-	-	-	-	-	-	-	-
Unreserved										
Undesignated, Reported In										
Special Revenue Funds	131,321	-	-	970,264	-	-	-	-	-	2,073,169
Capital Projects Funds	-	-	-	-	469,730	-	-	-	-	469,730
Debt Service Funds	-	-	-	-	-	-	99,155	10,149	778,819	888,123
<b>Total Fund Balances</b>	<b>131,321</b>	<b>-</b>	<b>-</b>	<b>970,264</b>	<b>469,730</b>	<b>-</b>	<b>99,155</b>	<b>10,149</b>	<b>778,819</b>	<b>3,431,022</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 131,321</b>	<b>\$ 1,052,314</b>	<b>\$ 214,044</b>	<b>\$ 970,264</b>	<b>\$ 1,817,777</b>	<b>\$ -</b>	<b>\$ 99,155</b>	<b>\$ 10,149</b>	<b>\$ 831,324</b>	<b>\$ 8,658,646</b>

**CITY OF COVINGTON, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2007**

	<b>Special Revenue Funds</b>									
	<b>Police and Fire Incentive</b>	<b>Newport Steel UDAG</b>	<b>Devou Park Maintenance</b>	<b>Investor Program</b>	<b>City Hall Operations</b>	<b>Fire Dept. Grant Fund</b>	<b>Arts District</b>	<b>501 Main Street Operations</b>	<b>Police Forfeiture</b>	<b>Police Block Grant</b>
<b>Revenues</b>										
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-	-	-	-	-	-	-
Intergovernmental	877,860	-	-	-	-	265,186	-	-	77,483	-
Charges for Services	-	-	-	-	262,124	-	-	47,892	-	-
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	-
Investment Earnings	-	38,553	3,477	25,347	1,132	-	2,663	-	15,209	4,732
Miscellaneous	-	280,613	-	231,421	-	-	-	-	-	-
<b>Total Revenues</b>	<b>877,860</b>	<b>319,166</b>	<b>3,477</b>	<b>256,768</b>	<b>263,256</b>	<b>265,186</b>	<b>2,663</b>	<b>47,892</b>	<b>92,692</b>	<b>4,732</b>
<b>Expenditures</b>										
Current										
General Government	-	-	-	-	281,883	-	-	41,249	-	-
Police	422,729	-	-	-	-	-	-	-	60,282	126,955
Fire	457,011	-	-	-	-	265,186	-	-	-	-
General Services	-	-	-	-	-	-	-	-	-	-
Recreation	-	-	-	-	-	-	-	-	-	-
Code Enforcement and Economic Development	-	153,184	-	229,169	-	-	-	-	-	-
Parking Garage	-	-	-	-	-	-	-	-	-	-
Debt Service										
Principal	-	-	-	-	-	-	15,000	-	-	-
Interest and Other Charges	-	-	-	-	-	-	21,241	78,623	-	-
Capital Outlay	-	-	-	-	13,952	-	-	-	-	2,688
<b>Total Expenditures</b>	<b>879,740</b>	<b>153,184</b>	<b>-</b>	<b>229,169</b>	<b>295,835</b>	<b>265,186</b>	<b>36,241</b>	<b>119,872</b>	<b>60,282</b>	<b>129,643</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>(1,880)</b>	<b>165,982</b>	<b>3,477</b>	<b>27,599</b>	<b>(32,579)</b>	<b>-</b>	<b>(33,578)</b>	<b>(71,980)</b>	<b>32,410</b>	<b>(124,911)</b>
<b>Other Financing Sources (Uses)</b>										
Transfers In	1,880	-	10,000	-	32,579	-	-	71,980	-	-
Capital Lease Acquisitions	-	-	-	-	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>1,880</b>	<b>-</b>	<b>10,000</b>	<b>-</b>	<b>32,579</b>	<b>-</b>	<b>-</b>	<b>71,980</b>	<b>-</b>	<b>-</b>
<b>Special Item</b>										
Proceeds from Sale of Capital Assets	-	-	-	-	-	-	-	-	-	-
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>165,982</b>	<b>13,477</b>	<b>27,599</b>	<b>-</b>	<b>-</b>	<b>(33,578)</b>	<b>-</b>	<b>32,410</b>	<b>(124,911)</b>
<b>Fund Balance July 1, 2006</b>	<b>-</b>	<b>72,945</b>	<b>59,828</b>	<b>332,493</b>	<b>-</b>	<b>-</b>	<b>43,547</b>	<b>-</b>	<b>256,881</b>	<b>124,911</b>
<b>Fund Balance June 30, 2007</b>	<b>\$ -</b>	<b>\$ 238,927</b>	<b>\$ 73,305</b>	<b>\$ 360,092</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,969</b>	<b>\$ -</b>	<b>\$ 289,291</b>	<b>\$ -</b>

**CITY OF COVINGTON, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2007**  
(Continued)

	Special Revenue Funds				Capital Projects	Debt Service Funds				Non-Major Governmental Funds
	CAD System	KLC Series 2002	Renaissance Grant Fund	Working Capital Reserve	Capital Improvement Fund	1990 First Mortgage Bonds	2004 Pension Obligation Bonds	2005 Refunding Bonds	Sewer Maintenance Fees	
<b>Revenues</b>										
Taxes	\$ 549,921	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 549,921
Licenses and Permits	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	177,423	-	734,792	-	-	-	-	2,132,744
Charges for Services	-	-	-	-	-	-	-	-	-	310,016
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	-
Investment Earnings	5,729	-	-	-	-	-	5,055	481	24,877	127,255
Miscellaneous	-	-	79,396	-	15,000	-	-	-	-	606,430
<b>Total Revenues</b>	<b>555,650</b>	<b>-</b>	<b>256,819</b>	<b>-</b>	<b>749,792</b>	<b>-</b>	<b>5,055</b>	<b>481</b>	<b>24,877</b>	<b>3,726,366</b>
<b>Expenditures</b>										
Current										
General Government	-	-	-	-	29,568	-	75,594	-	-	428,294
Police	-	-	-	-	-	-	-	-	-	609,966
Fire	-	-	-	-	-	-	-	-	-	722,197
General Services	-	-	-	-	-	-	-	-	-	-
Recreation	-	-	-	-	-	-	-	-	-	-
Code Enforcement and Economic Development	-	-	129,896	-	-	-	-	-	-	512,249
Parking Garage	-	-	-	-	-	-	-	-	-	-
Debt Service										
Principal	-	440,245	-	-	-	26,493	315,000	920,000	305,905	2,022,643
Interest and Other Charges	-	450,786	-	-	-	1,256	637,878	214,685	-	1,404,469
Capital Outlay	-	-	190,294	-	1,519,149	-	-	-	144,070	1,870,153
<b>Total Expenditures</b>	<b>-</b>	<b>891,031</b>	<b>320,190</b>	<b>-</b>	<b>1,548,717</b>	<b>27,749</b>	<b>1,028,472</b>	<b>1,134,685</b>	<b>449,975</b>	<b>7,569,971</b>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<b>555,650</b>	<b>(891,031)</b>	<b>(63,371)</b>	<b>-</b>	<b>(798,925)</b>	<b>(27,749)</b>	<b>(1,023,417)</b>	<b>(1,134,204)</b>	<b>(425,098)</b>	<b>(3,843,605)</b>
<b>Other Financing Sources (Uses)</b>										
Transfers In	-	1,944,059	63,371	400,000	690,969	27,716	1,028,471	1,134,685	-	5,405,710
Capital Lease Acquisitions	-	-	-	-	1,630,000	-	-	-	-	1,630,000
Transfers Out	(510,000)	-	-	-	(1,052,314)	-	-	-	-	(1,562,314)
<b>Total Other Financing Sources (Uses)</b>	<b>(510,000)</b>	<b>1,944,059</b>	<b>63,371</b>	<b>400,000</b>	<b>1,268,655</b>	<b>27,716</b>	<b>1,028,471</b>	<b>1,134,685</b>	<b>-</b>	<b>5,473,396</b>
<b>Special Item</b>										
Proceeds from Sale of Capital Assets	-	-	-	239,660	-	-	-	-	-	239,660
<b>Net Change in Fund Balances</b>	<b>45,650</b>	<b>1,053,028</b>	<b>-</b>	<b>639,660</b>	<b>469,730</b>	<b>(33)</b>	<b>5,054</b>	<b>481</b>	<b>(425,098)</b>	<b>1,869,451</b>
<b>Fund Balance July 1, 2006</b>	<b>85,671</b>	<b>(1,053,028)</b>	<b>-</b>	<b>330,604</b>	<b>-</b>	<b>33</b>	<b>94,101</b>	<b>9,668</b>	<b>1,203,917</b>	<b>1,561,571</b>
<b>Fund Balance June 30, 2007</b>	<b>\$ 131,321</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 970,264</b>	<b>\$ 469,730</b>	<b>\$ -</b>	<b>\$ 99,155</b>	<b>\$ 10,149</b>	<b>\$ 778,819</b>	<b>\$ 3,431,022</b>

**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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 840,000	\$ 900,000	\$ 877,860	\$ (22,140)
<b>Expenditures</b>				
Police	426,873	486,873	422,729	64,144
Fire	413,127	413,127	457,011	(43,884)
Total Expenditures	840,000	900,000	879,740	20,260
<b>Excess (Deficit) of Revenues Over Expenditures</b>	-	-	(1,880)	(1,880)
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	-	1,880	1,880
Net Change in Fund Balance	-	-	-	-
<b>Fund Balance July 1, 2006</b>	-	-	-	-
<b>Fund Balance June 30, 2007</b>	\$ -	\$ -	\$ -	\$ -

**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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 190,000	\$ -	\$ -	\$ -
Investment Earnings	169,000	59,000	38,553	(20,447)
Miscellaneous	<u>101,000</u>	<u>241,000</u>	<u>280,613</u>	<u>39,613</u>
Total Revenues	<u>460,000</u>	<u>300,000</u>	<u>319,166</u>	<u>19,166</u>
<b>Expenditures</b>				
Code Enforcement and Economic Development	<u>300,000</u>	<u>300,000</u>	<u>153,184</u>	<u>146,816</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>				
	<u>160,000</u>	<u>-</u>	<u>165,982</u>	<u>165,982</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	160,000	-	165,982	165,982
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>72,945</u>	<u>72,945</u>
<b>Fund Balance June 30, 2007</b>	<u>\$ 160,000</u>	<u>\$ -</u>	<u>\$ 238,927</u>	<u>\$ 238,927</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment Earnings	\$ 3,000	\$ 3,000	\$ 3,477	\$ 477
<b>Expenditures</b>				
General Government	5,000	5,000	-	5,000
Capital Outlay	<u>64,000</u>	<u>55,000</u>	<u>-</u>	<u>55,000</u>
Total Expenditures	<u>69,000</u>	<u>60,000</u>	<u>-</u>	<u>60,000</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	(66,000)	(57,000)	3,477	60,477
<b>Other Financing Sources (Uses)</b>				
Transfers In	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Net Change in Fund Balance	(56,000)	(47,000)	13,477	60,477
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>47,000</u>	<u>59,828</u>	<u>12,828</u>
<b>Fund Balance June 30, 2007</b>	<u>\$ (56,000)</u>	<u>\$ -</u>	<u>\$ 73,305</u>	<u>\$ 73,305</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment Earnings	\$ -	\$ 25,000	\$ 25,347	\$ 347
Miscellaneous	<u>66,670</u>	<u>166,670</u>	<u>231,421</u>	<u>64,751</u>
Total Revenues	<u>66,670</u>	<u>191,670</u>	<u>256,768</u>	<u>65,098</u>
<b>Expenditures</b>				
Code Enforcement and Economic Development	<u>366,670</u>	<u>366,670</u>	<u>229,169</u>	<u>137,501</u>
Net Change in Fund Balance	(300,000)	(175,000)	27,599	202,599
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>175,000</u>	<u>332,493</u>	<u>157,493</u>
<b>Fund Balance June 30, 2007</b>	<u>\$ (300,000)</u>	<u>\$ -</u>	<u>\$ 360,092</u>	<u>\$ 360,092</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Charges for Services	\$ 327,826	\$ 270,933	\$ 262,124	\$ (8,809)
Investment Earnings	-	-	1,132	1,132
Total Revenues	<u>327,826</u>	<u>270,933</u>	<u>263,256</u>	<u>(7,677)</u>
<b>Expenditures</b>				
General Government	233,055	303,092	281,883	21,209
Capital Outlay	16,495	-	13,952	(13,952)
Total Expenditures	<u>249,550</u>	<u>303,092</u>	<u>295,835</u>	<u>7,257</u>
Excess (Deficit) of Revenues Over Expenditures	78,276	(32,159)	(32,579)	(420)
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	32,159	32,579	420
Net Change in Fund Balance	78,276	-	-	-
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance June 30, 2007</b>	<u>\$ 78,276</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)**  
**FIRE DEPT. GRANT FUND**  
**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ -	\$ 265,186	\$ 265,186	\$ -
<b>Expenditures</b>				
Fire	-	265,186	265,186	-
Net Change in Fund Balance	-	-	-	-
<b>Fund Balance July 1, 2006</b>	-	-	-	-
<b>Fund Balance June 30, 2007</b>	<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)**  
**ARTS DISTRICT**  
**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment Earnings	\$ -	\$ -	\$ 2,663	\$ 2,663
<b>Expenditures</b>				
General Government	-	-	-	-
Debt Service				
Principal	-	15,000	15,000	-
Interest and Other Charges	-	19,050	21,241	(2,191)
Capital Outlay	-	-	-	-
 Total Expenditures	 -	 34,050	 36,241	 (2,191)
 Net Change in Fund Balance	 -	 (34,050)	 (33,578)	 472
 <b>Fund Balance July 1, 2006</b>	 -	 34,050	 43,547	 9,497
 <b>Fund Balance June 30, 2007</b>	 \$ -	 \$ -	 \$ 9,969	 \$ 9,969

**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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Charges for Services	\$ -	\$ 60,000	\$ 47,892	\$ (12,108)
<b>Expenditures</b>				
General Government	-	39,125	41,249	(2,124)
Debt Service				
Interest and Other Charges	-	80,875	78,623	2,252
 Total Expenditures	 -	 120,000	 119,872	 128
 Excess (Deficit) of Revenues Over Expenditures	 -	 (60,000)	 (71,980)	 (11,980)
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	60,000	71,980	11,980
 Net Change in Fund Balance	 -	 -	 -	 -
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 <b>Fund Balance June 30, 2007</b>	 <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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 70,000	\$ 70,000	\$ 77,483	\$ 7,483
Investment Earnings	10,000	10,000	15,209	5,209
 Total Revenues	 80,000	 80,000	 92,692	 12,692
<b>Expenditures</b>				
Police	9,460	125,000	60,282	64,718
Capital Outlay	178,690	200,000	-	200,000
 Total Expenditures	 188,150	 325,000	 60,282	 264,718
 Net Change in Fund Balance	 (108,150)	 (245,000)	 32,410	 277,410
 <b>Fund Balance July 1, 2006</b>	 -	 245,000	 256,881	 11,881
 <b>Fund Balance June 30, 2007</b>	 <u>\$ (108,150)</u>	 <u>\$ -</u>	 <u>\$ 289,291</u>	 <u>\$ 289,291</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 80,000	\$ 80,000	\$ -	\$ (80,000)
Investment Earnings	-	-	4,732	4,732
<b>Total Revenues</b>	<u>80,000</u>	<u>80,000</u>	<u>4,732</u>	<u>(75,268)</u>
<b>Expenditures</b>				
Police	-	195,000	126,955	68,045
Capital Outlay	1,312	5,000	2,688	2,312
<b>Total Expenditures</b>	<u>1,312</u>	<u>200,000</u>	<u>129,643</u>	<u>70,357</u>
Net Change in Fund Balance	78,688	(120,000)	(124,911)	(4,911)
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>120,000</u>	<u>124,911</u>	<u>4,911</u>
<b>Fund Balance June 30, 2007</b>	<u>\$ 78,688</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)**  
**CAD SYSTEM**  
**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 340,000	\$ 627,000	\$ 549,921	\$ (77,079)
Investment Earnings	<u>2,000</u>	<u>5,000</u>	<u>5,729</u>	<u>729</u>
Total Revenues	342,000	632,000	555,650	(76,350)
<b>Other Financing Sources (Uses)</b>				
Transfers Out	<u>(300,000)</u>	<u>(632,000)</u>	<u>(510,000)</u>	<u>122,000</u>
Net Change in Fund Balance	42,000	-	45,650	45,650
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>85,671</u>	<u>85,671</u>
<b>Fund Balance June 30, 2007</b>	<u>\$ 42,000</u>	<u>\$ -</u>	<u>\$ 131,321</u>	<u>\$ 131,321</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
General Government	\$ -	\$ -	\$ -	\$ -
Debt Service				
Principal	-	450,000	440,245	9,755
Interest and Other Charges	-	904,551	450,786	453,765
Capital Outlay	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Expenditures	 <u>800,000</u>	 <u>1,354,551</u>	 <u>891,031</u>	 <u>463,520</u>
 Excess (Deficit) of Revenues Over Expenditures	 (800,000)	 (1,354,551)	 (891,031)	 463,520
 <b>Other Financing Sources (Uses)</b>				
Transfers In	<u>-</u>	<u>1,354,551</u>	<u>1,944,059</u>	<u>589,508</u>
 Net Change in Fund Balance	 (800,000)	 -	 1,053,028	 1,053,028
 <b>Fund Balance July 1, 2006</b>	 <u>-</u>	 <u>-</u>	 <u>(1,053,028)</u>	 <u>(1,053,028)</u>
 <b>Fund Balance June 30, 2007</b>	 <u>\$ (800,000)</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)**  
**RENAISSANCE GRANT FUND**  
**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ -	\$ 265,000	\$ 177,423	\$ (87,577)
Miscellaneous	-	110,000	79,396	(30,604)
<b>Total Revenues</b>	<u>-</u>	<u>375,000</u>	<u>256,819</u>	<u>(118,181)</u>
<b>Expenditures</b>				
Code Enforcement and Economic Development	-	150,000	129,896	20,104
Capital Outlay	-	295,000	190,294	104,706
<b>Total Expenditures</b>	<u>-</u>	<u>445,000</u>	<u>320,190</u>	<u>124,810</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	-	(70,000)	(63,371)	6,629
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	70,000	63,371	(6,629)
<b>Net Change in Fund Balance</b>	-	-	-	-
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance June 30, 2007</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF COVINGTON, KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (WITH VARIANCES)**  
**WORKING CAPITAL RESERVE**  
**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Other Financing Sources (Uses)</b>				
Transfers In	\$ -	\$ 400,000	\$ 400,000	\$ -
Transfers Out	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	-	400,000	400,000	-
<b>Special Item</b>				
Proceeds from Sale of Capital Assets	-	239,660	239,660	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	-	639,660	639,660	-
<b>Fund Balance July 1, 2006</b>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	330,604	330,604
<b>Fund Balance June 30, 2007</b>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ -	\$ 639,660	\$ 970,264	\$ 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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ -	\$ 626,000	\$ 734,792	\$ 108,792
Miscellaneous	-	-	15,000	15,000
Total Revenues	-	626,000	749,792	123,792
<b>Expenditures</b>				
General Government	-	-	29,568	(29,568)
Capital Outlay	-	1,636,000	1,519,149	116,851
Total Expenditures	-	1,636,000	1,548,717	87,283
<b>Excess (Deficit) of Revenues Over Expenditures</b>	-	(1,010,000)	(798,925)	211,075
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	644,000	690,969	46,969
Proceeds from Capital Lease	-	1,378,000	1,630,000	252,000
Transfers Out	-	(1,012,000)	(1,052,314)	(40,314)
Total Other Financing Sources (Uses)	-	1,010,000	1,268,655	258,655
Net Change in Fund Balance	-	-	469,730	469,730
<b>Fund Balance July 1, 2006</b>	-	-	-	-
<b>Fund Balance June 30, 2007</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 469,730</u>	<u>\$ 469,730</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
Debt Service				
Principal	\$ -	\$ 30,000	\$ 26,493	\$ 3,507
Interest and Other Charges	-	10,447	1,256	9,191
	<u>-</u>	<u>40,447</u>	<u>27,749</u>	<u>12,698</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	40,500	40,447	27,716	(12,731)
Transfers Out	-	-	-	-
	<u>40,500</u>	<u>40,447</u>	<u>27,716</u>	<u>(12,731)</u>
Total Other Financing Sources (Uses)	<u>40,500</u>	<u>40,447</u>	<u>27,716</u>	<u>(12,731)</u>
Net Change in Fund Balance	40,500	-	(33)	(33)
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>33</u>	<u>33</u>
<b>Fund Balance June 30, 2007</b>	<u>\$ 40,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF COVINGTON, KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (WITH VARIANCES)**  
**2004 PENSION OBLIGATION BONDS**  
**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment Earnings	\$ -	\$ -	\$ 5,055	\$ 5,055
<b>Expenditures</b>				
General Government	-	80,000	75,594	4,406
Debt Service				
Principal	-	315,000	315,000	-
Interest and Other Charges	-	705,000	637,878	67,122
Total Expenditures	-	1,100,000	1,028,472	71,528
Deficit of Revenues Over Expenditures	-	(1,100,000)	(1,023,417)	76,583
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	1,100,000	1,028,471	(71,529)
Net Change in Fund Balance	-	-	5,054	5,054
<b>Fund Balance July 1, 2006</b>	-	-	94,101	94,101
<b>Fund Balance June 30, 2007</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,155</u>	<u>\$ 99,155</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment Earnings	\$ -	\$ -	\$ 481	\$ 481
<b>Expenditures</b>				
General Government	-	-	-	-
Debt Service				
Principal	-	920,000	920,000	-
Interest and Other Charges	-	276,721	214,685	62,036
Total Expenditures	-	1,196,721	1,134,685	62,036
Deficit of Revenues Over Expenditures	-	(1,196,721)	(1,134,204)	62,517
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	1,196,721	1,134,685	(62,036)
Net Change in Fund Balance	-	-	481	481
<b>Fund Balance July 1, 2006</b>	-	-	9,668	9,668
<b>Fund Balance June 30, 2007</b>	\$ -	\$ -	\$ 10,149	\$ 10,149

**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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Investment Earnings	\$ 80,000	\$ 25,000	\$ 24,877	\$ (123)
<b>Expenditures</b>				
Principal	306,000	450,000	305,905	144,095
Capital Outlay	<u>-</u>	<u>-</u>	<u>144,070</u>	<u>(144,070)</u>
Total Expenditures	<u>306,000</u>	<u>450,000</u>	<u>449,975</u>	<u>25</u>
Net Change in Fund Balance	(226,000)	(425,000)	(425,098)	(98)
<b>Fund Balance July 1, 2006</b>	<u>-</u>	<u>425,000</u>	<u>1,203,917</u>	<u>778,917</u>
<b>Fund Balance June 30, 2007</b>	<u><u>\$ (226,000)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 778,819</u></u>	<u><u>\$ 778,819</u></u>

**COMBINING FINANCIAL STATEMENTS**  
**PROPRIETARY FUNDS**

**CITY OF COVINGTON, KENTUCKY**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**June 30, 2007**

	<b>Internal Service Funds</b>		
	<b>Liability Insurance</b>	<b>Medical and Dental Insurance</b>	<b>Total</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 62,347	\$ 382,767	\$ 445,114
Accounts Receivable	-	-	-
Due from Other Funds	1,172,330	614,589	1,786,919
 Total Assets	1,234,677	997,356	2,232,033
 <b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	4,238	1,524	5,762
Estimated Liability for Claims	-	995,832	995,832
Due to Other Funds	-	-	-
 Total Liabilities	4,238	997,356	1,001,594
 <b>Net Assets</b>			
Unrestricted	\$ 1,230,439	\$ -	\$ 1,230,439

**CITY OF COVINGTON, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**Year Ended June 30, 2007**

	<b>Internal Service Funds</b>		
	<b>Liability Insurance</b>	<b>Medical and Dental Insurance</b>	<b>Total</b>
<b>Operating Revenues</b>			
Insurance Premium Payments	\$ -	\$ 4,723,205	\$ 4,723,205
Other Operating Revenues	8,257	497	8,754
<b>Total Operating Revenues</b>	<u>8,257</u>	<u>4,723,702</u>	<u>4,731,959</u>
<b>Operating Expenses</b>			
Contractual Services	164,462	386,117	550,579
Claims and Judgments	59,244	4,376,035	4,435,279
<b>Total Operating Expenses</b>	<u>223,706</u>	<u>4,762,152</u>	<u>4,985,858</u>
Operating Loss	(215,449)	(38,450)	(253,899)
<b>Non-Operating Revenues</b>			
Investment Income	39,458	22,555	62,013
Loss Before Transfers	(175,991)	(15,895)	(191,886)
Transfers In	495,200	-	495,200
Change in Net Assets	319,209	(15,895)	303,314
<b>Net Assets July 1, 2006</b>	<u>911,230</u>	<u>15,895</u>	<u>927,125</u>
<b>Net Assets June 30, 2007</b>	<u>\$ 1,230,439</u>	<u>\$ -</u>	<u>\$ 1,230,439</u>

**CITY OF COVINGTON, KENTUCKY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**Year Ended June 30, 2007**

	<b>Internal Service Funds</b>		
	<b>Liability Insurance</b>	<b>Medical and Dental Insurance</b>	<b>Total</b>
<b>Cash Flows From Operating Activities</b>			
Cash Received from Other Funds	\$ (976,768)	\$ 4,559,118	\$ 3,582,350
Cash Received from Other Activities	8,257	497	8,754
Cash Paid for Claims	<u>(225,586)</u>	<u>(4,265,019)</u>	<u>(4,490,605)</u>
Net Cash (Used) Provided by Operating Activities	(1,194,097)	294,596	(899,501)
<b>Cash Flows from Non-Capital Financing Activities</b>			
Transfer from Other Funds	495,200	-	495,200
<b>Cash Flows from Investing Activities</b>			
Interest Income	<u>39,458</u>	<u>22,555</u>	<u>62,013</u>
Net Change in Cash	(659,439)	317,151	(342,288)
<b>Cash and Cash Equivalents July 1, 2006</b>	<u>721,786</u>	<u>65,616</u>	<u>787,402</u>
<b>Cash and Cash Equivalents June 30, 2007</b>	<u><u>\$ 62,347</u></u>	<u><u>\$ 382,767</u></u>	<u><u>\$ 445,114</u></u>
<b>Reconciliation of Operating Loss to Net Cash (Used) Provided by Operating Activities</b>			
Operating Loss	\$ (215,449)	\$ (38,450)	\$ (253,899)
Change in Assets and Liabilities			
Accounts Receivable	-	11,403	11,403
Due from Other Funds	(976,768)	535,411	(441,357)
Accounts Payable	(1,880)	(783)	(2,663)
Estimated Liability for Claims	-	497,916	497,916
Due to Other Funds	<u>-</u>	<u>(710,901)</u>	<u>(710,901)</u>
<b>Net Cash (Used) Provided by Operating Activities</b>	<u><u>\$ (1,194,097)</u></u>	<u><u>\$ 294,596</u></u>	<u><u>\$ (899,501)</u></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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Operating Revenues</b>				
Insurance Premium Payments	\$ -	\$ -	\$ -	\$ -
Other Operating Revenues	-	-	8,257	8,257
<b>Total Operating Revenues</b>	<u>-</u>	<u>-</u>	<u>8,257</u>	<u>8,257</u>
<b>Operating Expenses</b>				
Contractual Services	113,000	155,000	164,462	(9,462)
Claims and Judgments	<u>325,000</u>	<u>325,000</u>	<u>59,244</u>	<u>265,756</u>
<b>Total Operating Expenses</b>	<u>438,000</u>	<u>480,000</u>	<u>223,706</u>	<u>256,294</u>
<b>Operating Loss</b>	(438,000)	(480,000)	(215,449)	264,551
<b>Non-Operating Revenues</b>				
Investment Income	<u>60,000</u>	<u>30,000</u>	<u>39,458</u>	<u>9,458</u>
<b>Income (Loss) Before Transfers</b>	(378,000)	(450,000)	(175,991)	274,009
Transfers In	<u>445,200</u>	<u>450,000</u>	<u>495,200</u>	<u>45,200</u>
<b>Change in Net Assets</b>	67,200	-	319,209	319,209
<b>Net Assets July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>911,230</u>	<u>911,230</u>
<b>Net Assets June 30, 2007</b>	<u>\$ 67,200</u>	<u>\$ -</u>	<u>\$ 1,230,439</u>	<u>\$ 1,230,439</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Operating Revenues</b>				
Insurance Premium Payments	\$ 2,739,600	\$ 5,075,000	\$ 4,723,205	\$ (351,795)
Other Operating Revenues	-	-	497	497
<b>Total Operating Revenues</b>	<u>2,739,600</u>	<u>5,075,000</u>	<u>4,723,702</u>	<u>(351,298)</u>
<b>Operating Expenses</b>				
Contractual Services	461,600	511,600	386,117	125,483
Claims and Judgments	<u>2,303,000</u>	<u>4,588,400</u>	<u>4,376,035</u>	<u>212,365</u>
<b>Total Operating Expenses</b>	<u>2,764,600</u>	<u>5,100,000</u>	<u>4,762,152</u>	<u>337,848</u>
<b>Operating Loss</b>	(25,000)	(25,000)	(38,450)	(13,450)
<b>Non-Operating Revenues</b>				
Investment Income	<u>25,000</u>	<u>25,000</u>	<u>22,555</u>	<u>(2,445)</u>
<b>Income (Loss) Before Transfers</b>	-	-	(15,895)	(15,895)
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in Net Assets</b>	-	-	(15,895)	(15,895)
<b>Net Assets July 1, 2006</b>	<u>-</u>	<u>-</u>	<u>15,895</u>	<u>15,895</u>
<b>Net Assets June 30, 2007</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**COMBINING FINANCIAL STATEMENTS**  
**FIDUCIARY FUNDS**

**CITY OF COVINGTON, KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2007**

	<b>Fiduciary Funds</b>		
	<b>Employees' Retirement</b>	<b>Police and Firemen's Pension</b>	<b>Totals</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 731,650	\$ 410,736	\$ 1,142,386
Investments - Mutual Funds	5,920,029	15,812,733	21,732,762
Notes Receivable	-	140,305	140,305
Total Assets	<u>6,651,679</u>	<u>16,363,774</u>	<u>23,015,453</u>
<b>Liabilities</b>			
Accounts Payable	-	3,721	3,721
Interfund Loans	919	302,731	303,650
Total Liabilities	<u>919</u>	<u>306,452</u>	<u>307,371</u>
<b>Net Assets</b>			
Held in Trust for Pension Benefits	<u>\$ 6,650,760</u>	<u>\$ 16,057,322</u>	<u>\$ 22,708,082</u>

**CITY OF COVINGTON, KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**Year Ended June 30, 2007**

	<b>Fiduciary Funds</b>		
	<b>Employees' Retirement</b>	<b>Police and Firemen's Pension</b>	<b>Totals</b>
<b>Additions</b>			
Contributions			
Employee Contributions	\$ 8,627	\$ -	\$ 8,627
Miscellaneous	-	-	-
Impounding Lot	-	139,668	139,668
Total Revenues	<u>8,627</u>	<u>139,668</u>	<u>148,295</u>
Investment Earnings			
Interest and Dividends	224,644	576,119	800,763
Net Appreciation in Fair Value of Investments	<u>725,255</u>	<u>2,017,884</u>	<u>2,743,139</u>
Total Investment Earnings	<u>949,899</u>	<u>2,594,003</u>	<u>3,543,902</u>
Total Additions	<u>958,526</u>	<u>2,733,671</u>	<u>3,692,197</u>
<b>Deductions</b>			
Benefit Payments	753,560	1,751,956	2,505,516
Administration	21,625	67,562	89,187
Impounding Lot	-	13,227	13,227
Total Deductions	<u>775,185</u>	<u>1,832,745</u>	<u>2,607,930</u>
Change in Net Assets	183,341	900,926	1,084,267
<b>Net Assets July 1, 2006</b>	<u>6,467,419</u>	<u>15,156,396</u>	<u>21,623,815</u>
<b>Net Assets June 30, 2007</b>	<u>\$ 6,650,760</u>	<u>\$ 16,057,322</u>	<u>\$ 22,708,082</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.

# Statistical Section

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.	<b>94-97</b>
<b>Revenue Capacity</b> These schedules contain trend information to help the reader assess the factors affecting the city's ability to generate its occupational license/payroll tax and property taxes.	<b>98-103</b>
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.	<b>104-106</b>
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.	<b>107-108</b>
<b>Operating Information</b> These schedules contain trend information about the city's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.	<b>109-111</b>

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial for the relevant year. The City implemented Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

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

	<b>Fiscal Year</b>				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental Activities / Primary Government					
Invested in Capital Assets, net of Related Debt	39,709,313	40,851,867	41,483,876	4,519,630	(2,888,790)
Restricted	888,123	1,307,719	1,593,846	1,943,252	1,943,882
Unrestricted	17,286,863	15,104,828	1,947,609	15,614,883	22,540,375
Total Governmental Activities Net Assets	<u>57,884,299</u>	<u>57,264,414</u>	<u>45,025,331</u>	<u>22,077,765</u>	<u>21,595,467</u>

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

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

	Fiscal Year				
	2007	2006	2005	2004	2003
<b>Expenses</b>					
Governmental Activities:					
General Government	6,975,709	7,781,587	9,381,965	3,939,011	4,822,043
Police	14,873,868	14,482,761	13,660,495	13,582,260	12,712,976
Fire	13,595,531	12,512,512	11,930,245	11,286,851	10,328,208
General Service	6,001,968	5,324,831	5,561,622	8,020,228	7,440,215
Recreation	2,350,546	2,325,250	2,575,568	1,045,289	787,164
Code Enforcement and Economic Development	9,345,867	9,817,626	9,086,241	9,825,619	10,876,935
Parking Garage	734,401	727,419	803,715	809,425	743,982
Interest on Long-term Debt	1,872,816	1,919,888	1,437,434	1,171,229	1,605,271
Total governmental activities expenses	<u>55,750,706</u>	<u>54,891,874</u>	<u>54,437,285</u>	<u>49,679,912</u>	<u>49,316,794</u>
<b>Program Revenues</b>					
Governmental Activities:					
General Government	1,096,558	1,215,111	761,041	1,928,888	1,737,441
Police	331,579	372,192	-	344,287	516,097
Fire	1,073,548	912,526	987,802	546,276	510,848
General Service	1,170,789	1,226,952	1,092,970	1,154,023	1,373,968
Recreation	-	-	-	90,465	39,525
Code Enforcement and Economic Development	114,177	56,017	-	-	1,312,485
Parking Garage	1,041,332	1,059,369	1,252,755	-	-
Interest on Long-term Debt	-	-	-	1,194,146	-
Operating Grants and Contributions	8,840,224	9,652,316	8,754,883	9,218,291	9,114,414
Capital Grants and Contributions	1,279,884	716,322	3,106,704	902,562	799,478
Total Governmental Activities Expenses	<u>14,948,091</u>	<u>15,210,805</u>	<u>15,956,155</u>	<u>15,378,938</u>	<u>15,404,256</u>
<b>General Revenues and Other changes in Net Assets</b>					
Governmental Activities:					
Taxes					
Real Property Taxes, Levied for General Purposes	5,590,772	5,913,401	4,399,593	4,945,540	5,094,960
Personal Property Taxes, Levied for General Purposes	553,057	589,401	496,286	474,360	679,089
Public Services Taxes	1,978,504	2,092,335	1,909,267	1,892,053	2,078,467
Taxes, Levied for Bank Deposits	59,042	62,232	62,323	102,802	74,272
Insurance Premium Taxes	5,242,337	5,324,223	5,240,743	4,909,972	4,746,726
Payroll Taxes	21,656,929	21,263,831	19,543,654	18,319,549	17,683,867
Net Profit Taxes	2,959,729	2,554,150	2,303,123	2,590,933	1,993,189
Other Taxes	552,641	490,889	358,751	376,845	351,664
Investment earnings	389,885	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	214,010	576,242	-	-	-
Miscellaneous	2,225,594	1,710,802	1,878,640	1,038,363	20,047,710
Transfers	-	-	(14,275,000)	-	(345,200)
Total General Revenues and Transfers	<u>41,422,500</u>	<u>40,887,745</u>	<u>22,957,970</u>	<u>34,783,237</u>	<u>52,591,030</u>
<b>Change in Net Assets</b>					
Total Primary Government	<u>619,885</u>	<u>1,206,676</u>	<u>(15,523,160)</u>	<u>482,263</u>	<u>18,678,492</u>

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

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

	<u>Fiscal Year</u>									
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
General Fund										
Reserved	1,611	\$ 122,892	\$ 5,388	\$ -	\$ -	\$ 125,771	\$ 115,779	\$ 129,072	\$ 149,427	\$ 159,300
Unreserved	675,320	550,513	229,739	291,457	920,556	1,204,885	1,208,499	938,012	872,325	791,777
Total general fund	<u>\$ 676,931</u>	<u>\$ 673,405</u>	<u>\$ 235,127</u>	<u>\$ 291,457</u>	<u>\$ 920,556</u>	<u>\$ 1,330,656</u>	<u>\$ 1,324,278</u>	<u>\$ 1,067,084</u>	<u>\$ 1,021,752</u>	<u>\$ 951,077</u>
All Other Governmental Funds										
Reserved		\$ -	\$ -	\$ -	\$ -	\$ 39,342	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	3,716,572	810,353	1,207,276	2,578,865	3,439,783	3,037,818	4,466,029	5,429,314	8,466,071	7,640,851
Capital projects funds	469,730	-	-	-	-	-	-	-	-	-
Debt service funds	888,123	1,307,719	1,593,846	3,745,979	4,053,087	6,494,886	13,141,399	5,501,061	2,409,320	2,424,341
Total all other governmental funds	<u>\$ 5,074,425</u>	<u>\$ 2,118,072</u>	<u>\$ 2,801,122</u>	<u>\$ 6,324,844</u>	<u>\$ 7,492,870</u>	<u>\$ 9,572,046</u>	<u>\$ 17,607,428</u>	<u>\$ 10,930,375</u>	<u>\$ 10,875,391</u>	<u>\$ 10,065,192</u>

**Note:**

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

	Fiscal Year				
	2007	2006	2005	2004	2003
<b>Revenues</b>					
Taxes	13,554,260	13,466,713	12,762,470	12,395,102	12,104,042
Licenses and Permits	24,897,197	24,123,130	22,214,153	21,287,327	20,028,720
Intergovernmental	11,204,089	10,345,557	9,636,936	10,120,853	9,913,892
Charges for services	4,104,170	4,128,721	4,094,568	4,745,670	4,721,842
Fines and Forfeitures	711,786	603,286	444,832	478,752	447,020
Investment Earnings	330,536	278,531	223,704	123,538	186,286
Miscellaneous	2,342,372	1,734,234	4,109,294	1,539,153	2,656,223
<b>Total Revenues</b>	<b>57,144,410</b>	<b>54,680,172</b>	<b>53,485,957</b>	<b>50,690,395</b>	<b>50,058,025</b>
<b>Expenditures</b>					
<b>Current</b>					
General Government	3,092,518	3,537,750	3,365,074	3,366,630	3,558,293
Police	14,359,432	14,109,828	13,239,562	12,833,125	11,913,958
Fire	12,989,464	12,168,065	11,429,099	10,800,154	9,947,813
General Service	5,292,360	5,180,111	5,358,833	7,761,571	7,105,526
Recreation	2,309,959	2,289,413	2,372,300	717,870	737,049
Code Enforcement and Economic Development	9,098,909	9,832,881	9,096,233	9,778,417	10,831,082
Parking Garage	734,401	727,419	803,715	809,425	743,982
<b>Debt Service</b>					
Principal	2,727,985	2,763,879	5,553,494	7,665,518	12,325,046
Interest and Other Charges	1,701,223	1,965,386	1,509,839	1,464,763	1,605,271
Capital Outlay	3,257,621	2,701,215	6,722,898	3,082,026	6,247,041
<b>Total Expenditures</b>	<b>55,563,872</b>	<b>55,275,947</b>	<b>59,451,047</b>	<b>58,279,499</b>	<b>65,015,061</b>
<b>Excess of revenues Over (under) Expenditures</b>					
	1,580,538	(595,775)	(5,965,090)	(7,589,104)	(14,957,036)
<b>Other Financing Sources (Uses)</b>					
Bonds issued			12,806,241	4,996,000	-
Lease proceeds	1,630,000			840,944	12,809,056
Transfers in	6,169,710	6,006,833	11,506,504	3,006,160	2,766,134
Transfer out	(6,663,029)	(6,252,032)	(25,926,704)	(3,051,160)	(3,111,334)
Capital Assets		596,202			
Miscellaneous			(1,003)		
<b>Total other financing sources (uses)</b>	<b>1,136,681</b>	<b>351,003</b>	<b>(1,614,962)</b>	<b>5,791,944</b>	<b>12,463,856</b>
<b>Special Item</b>					
Proceeds from Sale of Capital Asse	239,660				
<b>Net change in fund balances</b>	<b>2,956,879</b>	<b>(244,772)</b>	<b>(7,580,052)</b>	<b>(1,797,160)</b>	<b>(2,493,180)</b>
<b>Debt service as a percentage of non capital expenditures</b>					
	8.47%	9.00%	13.40%	16.54%	23.70%

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

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

<b>Fiscal Year</b>	<b>Total Gross Taxable Wages</b>	<b>Total Withholding Fees</b>	<b>Total Direct Rate</b>
1998	52,255,924,000	13,063,981	0.025%
1999	56,782,672,000	14,195,668	0.025%
2000	61,669,264,000	15,417,316	0.025%
2001	65,562,528,000	16,390,632	0.025%
2002	67,515,012,000	16,878,753	0.025%
2003	70,735,468,000	17,683,867	0.025%
2004	73,278,196,000	18,319,549	0.025%
2005	78,174,616,000	19,543,654	0.025%
2006	85,055,324,000	21,263,831	0.025%
2007	86,627,716,000	21,656,929	0.025%

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

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

<b>Taxpayer</b>	
<b>2007</b>	<b>1998</b>
A. C. Nielsen	A. C. Nielsen
Atkins & Pearce	Atkins & Pearce
Club Chef	Commonwealth of Kentucky
Commonwealth of Kentucky	Covington Board of Education
Covington Board of Education	Duro Bag
Fidelity Investments	Fidelity Investments
Internal Revenue Service	Internal Revenue Service
No. Ky. Mental Health and Retardation Board	No. Ky. Mental Health and Retardation Board
Omnicare	Rosedale Manor
St. Elizabeth Hospital	St. Elizabeth Hospital

**Notes:** Taxpayer information is listed alphabetically.

**Source:** City of Covington Finance Department

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

<b>Fiscal Year</b>	<b>Real Property</b>	<b>Personal Property</b>	<b>Tax-Exempt Property</b>	<b>Total Taxable Assessed Value</b>	<b>Total Direct Tax Rate</b>
<i>(Amounts in thousands)</i>					
1998	1,112,335	143,996	54,141	1,202,190	0.353
1999	1,165,955	161,901	56,529	1,271,327	0.353
2000	1,240,574	171,655	57,440	1,354,789	0.322
2001	1,318,915	190,967	59,908	1,449,974	0.322
2002	1,374,693	179,133	60,047	1,493,779	0.322
2003	1,554,730	179,132	57,688	1,676,174	0.299
2004	1,600,532	155,966	58,542	1,697,956	0.299
2005	1,617,670	160,191	57,720	1,720,141	0.299
2006	1,687,690	203,668	57,570	1,833,788	0.299
2007	1,828,664	195,876	58,296	1,966,244	0.284

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

Tax rates are per \$100 of assessed value.

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

Fiscal Year	City Direct Rate	School Districts			County	State	Other	Totals	
		Covington Independent	Kenton County					Covington Schools Area	Kenton County Schools Area
1998	0.3532	0.895	0.465	0.1300	0.157	0.1100	1.6452	1.2152	
1999	0.3532	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	0.3223	0.865	0.492	0.1310	0.135	0.1120	1.5420	1.1690	
2003	0.2990	0.894	0.548	0.1310	0.133	0.1150	1.5720	1.2260	
2004	0.2990	0.925	0.558	0.1350	0.131	0.1320	1.6220	1.2550	
2005	0.2990	0.942	0.556	0.1360	0.131	0.1350	1.6430	1.2570	
2006	0.2990	0.922	0.556	0.1380	0.128	0.1410	1.6132	1.2472	
2007	0.2842	0.961	0.564	0.1410	0.124	0.1488	1.6590	1.2620	

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

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

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

<b>Taxpayer</b>	<b>2007</b>			<b>1998</b>		
	<b>Taxable Assessed Value</b>	<b>Rank</b>	<b>Percentage of Total City Taxable Assessed Value</b>	<b>Taxable Assessed Value</b>	<b>Rank</b>	<b>Percentage of Total City Taxable Assessed Value</b>
CPX-Rivercenter Dev/Corp	\$ 140,563,400	1	7.15%	\$ 112,038,600	1	9.32%
Fidelity Properties Inc	91,854,600	2	4.67%	61,406,500	2	5.11%
Scott Street Land Co. Inc	14,960,000	3	0.76%	10,475,100	3	0.87%
J & S Company Inc	10,482,000	4	0.53%	8,922,500	6	0.74%
OZRE Lodging I LLC	13,947,100	5	0.71%	9,458,300	5	0.79%
Atkins & Pearce Mftg	10,000,000	6	0.51%	10,118,000	4	0.84%
Pioneer Park Assoc #2 LLC	6,812,500	7	0.35%	7,118,000	8	0.59%
Latonia Realty Inc	6,590,000	8	0.34%	7,758,500	7	0.65%
Scottenstein Trust	6,565,000	9	0.33%			
Atria Highland Crossing	6,165,000	10	0.31%			
Gateway Hotel LLC				6,486,000	9	0.54%
A.C.C.D. Co.Inc				5,630,500	10	0.47%
<b>Total</b>	<b>\$ 307,939,600</b>		<b>15.66%</b>	<b>\$ 239,412,000</b>		<b>19.91%</b>

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$ 5,011,764	\$ 4,824,742	96.27%	\$ 151,416	\$ 4,976,158	99.29%
2004	5,076,892	4,907,183	96.66%	\$ 120,864	\$ 5,028,047	99.04%
2005	5,143,225	4,926,477	95.79%	\$ 134,948	\$ 5,061,425	98.41%
2006	5,483,028	5,293,287	96.54%	\$ 103,496	\$ 5,396,783	98.43%
2007	5,656,394	5,469,125	96.69%		\$ 5,469,125	96.69%

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

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

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Capital Leases</b>	<b>Total Primary Government</b>	<b>Percentage of Personal Income (a)</b>	<b>Per Capita (a)</b>
2003	\$ -	\$ 36,734	\$ 36,734	3.40%	\$ 847
2004	4,962	29,344	34,306	3.18%	\$ 791
2005	26,487	19,415	45,902	4.26%	\$ 1,058
2006	27,907	15,231	43,138	4.00%	\$ 995
2007	25,888	16,153	42,041	3.90%	\$ 970

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

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

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

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Percentage of Actual Taxable Value of Property</b>	<b>Per Capita</b>
2003	\$ -	0.00%	\$ -
2004	4,962	0.29%	114.41
2005	26,487	1.54%	643.46
2006	27,907	1.52%	596.86
2007	25,888	1.32%	596.91

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

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

**Legal Debt Margin Calculation for Fiscal Year 2007**

Assessed value	\$ 1,966,244
Debt limit (10% of assessed value)	\$ 196,624
Debt applicable to limit:	
General Obligation	\$ 25,888
Total net debt applicable to limit	<u>\$ 25,888</u>
Legal debt margin	<u>\$ 170,736</u>

	Fiscal Year				
	2007	2006	2005	2004	2003
Debt limit	\$ 196,624	\$ 183,379	\$ 172,014	\$ 169,796	\$ 167,618
Total net debt applicable to limit	25,888	27,907	26,487	4,962	-
Legal debt margin	<u>\$ 170,736</u>	<u>\$ 155,472</u>	<u>\$ 145,527</u>	<u>\$ 164,834</u>	<u>\$ 167,618</u>
Total net debt applicable to the limit as a percentage of debt limit	13.17%	15.22%	15.40%	2.92%	0.00%

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

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

<b>Calendar Year</b>	<b>Population (a)</b>	<b>Personal Income (a)</b> <i>(thousands of dollars)</i>	<b>Per Capita Personal Income (a)</b>	<b>Median Age (a)</b>	<b>School Enrollment (b)</b>	<b>Unemployment Rate (c)</b>
1998	43,264	918,365	21,227	32.8	4,730	2.7%
1999	43,264	918,365	21,227	32.8	4,676	3.3%
2000	43,370	1,077,787	24,851	33.1	4,660	3.3%
2001	43,370	1,077,787	24,851	33.1	4,415	3.2%
2002	43,370	1,077,787	24,851	33.1	4,299	4.6%
2003	43,370	1,077,787	24,851	33.1	4,190	6.0%
2004	43,370	1,077,787	24,851	33.1	4,034	5.7%
2005	43,370	1,077,787	24,851	33.1	3,889	5.6%
2006	43,370	1,077,787	24,851	33.1	3,975	5.2%
2007	43,370	1,077,787	24,851	33.1	3,937	4.5%

**Sources:**

- (a) U. S. Department of the Census (2000 Census) & (1996 Census)
- (b) Covington Independent School District
- (c) Kentucky Department of Employment Services

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

<b>Employer</b>	<b>2007</b>		
	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>
Internal Revenue Service	4,800	1	24.24%
Fidelity Investments	4,100	2	20.71%
Covington Board of Education	925	3	4.67%
St. Elizabeth Hospital	775	4	3.91%
A. C. Nielsen	425	5	2.15%
State of Kentucky	360	6	1.82%
Ommicare	325	7	1.64%
Club Chef	300	8	1.52%
No. KY MH-MR Board	290	9	1.46%
Atkins & Pearce Mftg	250	10	1.26%
<b>Total</b>	<b>12,550</b>		<b>63.38%</b>

**Note:** Data is unavailable for nine years ago.

**Source:** City of Covington Finance Department

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

<b>Full-time-Equivalent Employees as of June 30</b>										
<b><u>Function/Program</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>	<b><u>1999</u></b>	<b><u>1998</u></b>
General government										
Management services	16	17	17	18	17	15	12	14	14	15
Finance	14	15	15	16	15	15	14	13	13	13
Economic development	6	5	5	7	6	5	4	4	4	4
Code enforcement	9	10	10	10	9					
Housing	16	16	16	18	20	24	24	24	24	24
Police										
Officers	116	116	116	116	113	113	110	110	110	106
Civilians	33	34	34	32	31	31	31	28	28	27
Fire										
Firefighters and officers	118	118	118	117	117	117	117	117	117	117
Civilians	1	1	1	1	1	1	1	1	1	1
Other public works										
Public works	35	36	38	38	38	52	49	46	45	45
Engineering	3	2	2	3	3	3	3	3	3	3
Parks and recreation	18	20	20	20	20	3	3	3	3	3
<b>Total</b>	<b>385</b>	<b>390</b>	<b>392</b>	<b>396</b>	<b>390</b>	<b>379</b>	<b>368</b>	<b>363</b>	<b>362</b>	<b>358</b>

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

<b><u>Function/Program</u></b>	<b>Fiscal Year</b>									
	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>	<b><u>1999</u></b>	<b><u>1998</u></b>
Police										
Physical arrests	5,762	5,819	5,342	5,017	5,167	4,942	5,177	6,426	6,044	5,806
Parking violations	14,863	15,622	14,721	13,016	13,775	15,494	14,216	13,842	13,703	13,912
Traffic violation	9,778	9,721	9,894	9,714	9,581	9,919	9,478	5,540	4,296	4,224
Fire										
Fire responses	3,752	3,985	4,167	3,951	4,209	4,376	4,218	4,323	6,995	6,117
Ambulance runs	10,246	9,742	8,602	7,927	7,931	7,755	7,435	7,377	8,730	7,918
Inspections	2,540	2,576	2,521	2,696	2,618	3,291	2,348	2,023	3,385	2,758

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

<u>Function/Program</u>	<u>Fiscal Year</u>								
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Police									
Stations	1	1	1	1	1	1	1	1	1
Zone offices	4	4	4	5	5	5	5	5	5
Patrol units	83	83	83	83	83	83	83	83	83
Fire stations	5	5	5	5	5	5	5	5	5
Other public works									
Streets (miles)	120	130	126	126	120	120	120	120	120
Streetlights	3,246	3,246	3,246	3,246	3,246	3,246	3,246	3,176	3,176
Parks and recreation									
Acreage	850	850	850	850	850	850	850	822	822
Playgrounds	28	28	28	28	28	28	28	21	21
Baseball/softball diamonds	10	10	10	10	10	10	10	14	14
Soccer/football fields	5	5	5	5	5	5	5	-	-
Swimming pools	4	4	4	4	4	4	4	4	4

**SINGLE AUDIT SECTION**

**CITY OF COVINGTON, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2007

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Fund Balance at June 30, 2006</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance at June 30, 2007</u>
<b>U.S. Department of HUD</b>						
Direct Programs						
Section 8 Housing Choice Vouchers	14.871 (M)	KY-133-VO-0054-0F04	\$ -	\$ 6,518,612 (F)	\$ 6,518,612 (F)	\$ -
			<u>490,871</u>	<u>110,820 (NF)</u>	<u>(917,515) (NF)</u>	<u>1,519,206</u>
Community Development Block Grants/ Entitlement Grants	14.218	B-02-MC-21-0001	-	1,948,733 (F)	1,948,733 (F)	-
			<u>-</u>	<u>960,450 (NF)</u>	<u>960,450 (NF)</u>	<u>-</u>
HOME Program	14.239	M-02-MC-21-0200	65,630	332,469 (NF)	276,902 (NF)	121,197
		M-03-MC-21-0200	-	315,705 (F)	315,705 (F)	-
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>U.S. Department of HUD</b>						
Direct Programs						
Fire Department			-	265,186 (F)	265,186 (F)	-
Highway Safety			-	32,522 (F)	32,522 (F)	-
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Federal Financial Assistance			<u>-</u>	<u>9,080,758 (F)</u>	<u>9,080,758 (F)</u>	<u>-</u>
			<u>\$ 556,501</u>	<u>\$ 1,403,739 (NF)</u>	<u>\$ 319,837 (NF)</u>	<u>\$ 1,640,403</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, 2007, which collectively comprise the City of Covington, Kentucky's basic financial statements and have issued our report thereon dated December 20, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Covington, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Kentucky's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Covington, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Covington, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of Covington, Kentucky's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Covington, Kentucky's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above as Finding 2007-1 to be material weakness.

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

Compliance and Other Matters

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

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

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

*VonLehman & Company Inc.*

Fort Mitchell, Kentucky  
December 20, 2007



**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, 2007.

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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Kentucky's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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 20, 2007

**CITY OF COVINGTON, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2007**

**SECTION 1 – SUMMARY OF AUDITORS' RESULTS**

<b>FINANCIAL STATEMENTS</b>	
Type of Financial Statement Opinion	Unqualified
Were there any significant deficiencies in internal control reported at the financial statements level (GAGAS)?	Yes
Were there any material weaknesses reported at the financial statement level (GAGAS)?	Yes
Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<b>FEDERAL AWARDS</b>	
Were there any significant deficiencies in internal control reported for major federal programs?	No
Were there any material weaknesses reported for major federal programs?	None Reported
Type of Major Programs Compliance Opinion	Unqualified
Is there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510?	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, 2007**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

Internal Control

2007-1 Prior Period Adjustment

Finding:

As noted in Note 2 to the financial statements, net assets on the government-wide statement of net assets have been restated as of July 1, 2006 to record the net pension obligation asset. A proper system of internal controls over financial reporting is essential in order to prevent, detect, and correct misstatements. Due to the complex accounting and disclosure requirements applicable to the City's defined benefit pension plans, the City failed to record the net pension obligation asset in prior years. The City has now recorded the net pension obligation asset in the government-wide statement of net assets in the current year. This omission in the prior years did not affect the fund balance on the governmental funds balance sheet.

Management's Response:

The city has corrected the omission and has implemented appropriate controls to ensure accurate financial reporting.

**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, 2007**

**PRIOR YEAR – FINANCIAL STATEMENT FINDINGS**

Non-Compliance

2006-1 Expenditures in excess of budget appropriations

Current Status:

There were no material instances of non-compliance in the current year related to expenditures in excess of budget appropriations.

**PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.