

# CITY OF COVINGTON KENTUCKY



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
YEAR ENDED  
JUNE 30, 2017

**CITY OF COVINGTON, KENTUCKY**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED June 30, 2017**

**Issued by:**  
**Finance Department**

**Jerome A. Heist**  
**Senior Accounting Manger**

**Prepared by:**  
**Finance Department**

CITY OF COVINGTON, KENTUCKY  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED June 30, 2017

Table of Contents

INTRODUCTORY SECTION

Letter of Transmittal .....	1
List of Elected and Appointed Officials .....	6
Organizational Chart .....	7
GFOA Certificate of Achievement .....	8

FINANCIAL SECTION

Independent Auditors' Report .....	9
Management's Discussion and Analysis .....	11

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Position.....	23
Statement of Activities.....	24

Fund Financial Statements:

Balance Sheet – Governmental Funds.....	25
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	26
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	27
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	28
Statement of Net Position – Proprietary Funds.....	29
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds .....	30
Statement of Cash Flows – Proprietary Funds .....	31
Statement of Fiduciary Net Position – Fiduciary Funds .....	32
Statement of Changes in Fiduciary Net Position – Fiduciary Funds .....	33
Notes to the Basic Financial Statements .....	34

## Table of Contents (con't.)

### Required Supplementary Information:

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	69
RSI – Employees’ Retirement Plan .....	73
RSI – Police and Firemen’s Retirement Plan.....	74
Notes to Required Supplementary Information.....	75
RSI – Schedule of the Proportionate Share of Net Pension Liability.....	76
RSI – Schedule of City Contributions .....	77
Notes to Required Supplementary Information.....	78

### Combining Statements and Individual Fund Schedules:

Description of Funds .....	79
Combining Balance Sheet – Nonmajor Governmental Funds.....	82
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds .....	83
Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –	
Federal & State Grants Fund.....	84
Community Development Block Grant Fund.....	85
HOME Program Fund.....	86
One Stop Shop Fund.....	87
Capital Reserve Fund.....	88
Police Forfeiture Justice Fund .....	89
HOME Consortium Fund .....	90
Housing Voucher Program Fund .....	91
Infrastructure Fund.....	92
CEDA Fund .....	93
Fleet, Equipment, Technology, Facilities, & Other Capital Projects Fund	94
Waste Fund.....	95
Ambulance Fund.....	96
Personnel & Benefits Fund.....	97
Police & Fire Supplemental Pay Fund .....	98
Devou Park Maintenance Fund .....	99
Devou Park Master Plan Fund .....	100
Pension Obligation 2004 Fund .....	101
Capital Improvement Fund .....	102

Combining Statement of Net Position – Internal Service Funds .....	103
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## Table of Contents (con't.)

Combining Statement of Revenues, Expenses and Changes in Net Position – Internal Service Funds.....	104
Combining Statement of Cash Flows – Internal Service Funds.....	105
Statement of Changes in Fiduciary Net Position – Agency Funds.....	106

### STATISTICAL SECTION

Schedule 1 - Net Position by Component .....	107
Schedule 2 - Changes in Net Position .....	108
Schedule 3 - Fund Balances, Governmental Funds.....	109
Schedule 4 - Changes in Fund Balances – Governmental Funds .....	110
Schedule 5 - Occupational License Fees – Payroll Withholding.....	111
Schedule 6 - Principal Occupational Payroll Tax Payers.....	112
Schedule 7 - Assessed Value and Estimated Actual Value of Taxable Property ..	113
Schedule 8 - Direct and Overlapping Property Tax Rates.....	114
Schedule 9 - Principal Real Property Tax Payers .....	115
Schedule 10 - Property Tax Levies and Collections .....	116
Schedule 11 - Ratios of Outstanding Debt by Type.....	117
Schedule 12 - Ratio of General Bonded Debt Outstanding .....	118
Schedule 13 - Legal Debt Margin Information .....	119
Schedule 14 - Demographic and Economic Statistics .....	120
Schedule 15 - Principal Employers .....	121
Schedule 16 - Full-Time Equivalent City Government Employees by Function/Program.....	122
Schedule 17 - Operating Indicators by Function/Program.....	123
Schedule 18 - Capital Assets Statistics by Function/Program .....	124
Schedule 19 - Direct and Overlapping Governmental Activities Debt.....	125

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# INTRODUCTORY SECTION

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OFFICE OF THE CITY MANAGER

January 25, 2018

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

Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)

State law requires that all general-purpose local governments publish by February 1<sup>st</sup> immediately following the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) in accordance with the implementation of Governmental Accounting Standards Board (GASB) Statement 34, and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Covington for the fiscal year ended June 30, 2017.

This report consists of management's representations concerning the finances of the City of Covington. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Covington has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Covington's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Covington's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and fairly presents the financial position and results of the operations of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included in this report.

The City of Covington's financial statements have been audited by RFH Certified Public Accountants, with a local office in Lexington, KY. 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, 2017, 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 unmodified opinion that the City of Covington's financial statements for the fiscal year ended June 30, 2017, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

### ***Profile of the Government***

The City of Covington, founded in 1815, is located in the northern most part of the state, situated in Kenton County and is part of the Northern Kentucky Region, which ranks as one of the top growth areas in Kentucky. The City of Covington currently occupies a land area of 13.1 square miles and serves an estimated population of 40,797 based on the 2016 population estimates U.S. Census (<http://www.census.gov>). The City of Covington is empowered to levy numerous taxes and fees. Its major revenue sources include an occupational license tax levied on gross wages and net profits of businesses, an insurance premium license fee and a property tax on both real and personal properties.

The City of Covington operates under the City Manager form of government. Legislative authority is vested in the City Board of Commissioners, consisting of the Mayor and four City Commission members. The Board of Commissioners is responsible for among other tasks, approving ordinances, adopting the budget, appointing members to various boards, and approving 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, the development of short and long range planning, capital improvement programs, and the running of day-to-day operations of the City. The City Board of Commissioners is elected on a non-partisan basis. The Mayor serves a four year term and the City Commissioners serve two year terms. Elections for the four City Commissioners and Mayor were in November of 2016. Elected City Commissioners and Mayor begin their new terms on January 1, 2017.

The City of Covington provides a full range of services including a full time professional police service and full time professional fire service; advanced life support emergency services; street maintenance and improvement; waste and recyclable materials collection services, economic development services; a full range of recreational areas and activities; cultural events; planning and zoning; housing rehabilitation and development; and public nuisance and zoning code enforcement. In addition to these activities, the governing body is responsible for funding the

Employees' Retirement Fund and the Police and Firemen's Retirement Fund as well as the City's own Medical Self Insurance and Liability Insurance Funds.

The annual budget serves as the foundation for the City of Covington's financial planning and control. Budget targets are set for each city department based on current revenue estimates and adjusted for current trends. All departments of the City of Covington are required to submit budget requests for appropriation to the City Manager. The budget requests must be within budget targets. The City Manager uses these requests as the starting point for developing a recommended structurally balanced budget. The City Manager then presents the recommended structurally balanced budget to the Board of Commissioners for review no less than 30 days prior to the end of the fiscal year. A structurally balanced budget is required by State law and the Kentucky Constitution. The final budget is adopted prior to July 1 of each year. The appropriated budget is prepared by fund and department (e.g., police). Department heads may make transfers of appropriations within a department with the approval of the City Manager, or his designee. The City Manager cannot make transfers of appropriations between funds without the approval of the Board of Commissioners. Expenditures may not legally exceed budgeted appropriations at the fund level. Any revisions to the budget that would alter total revenues and total expenditures of any fund must be approved by the Board of Commissioners. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

### ***Information Useful in Assessing the Economic Condition***

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

The City of Covington has maintained its efforts in developing economic resources in the Greater Cincinnati/Northern Kentucky region and has developed important partners in doing so including the Catalytic Development Funding Corporation, Northern Kentucky Tri-County Economic Development Corporation, and the Northern Kentucky Chamber of Commerce. The consistent and persistent effort put forth by Covington's elected and appointed officials and other community leaders over the past eight years has positioned the City for economic growth in the foreseeable future.

Like all cities in Kentucky, Covington is reliant on economically sensitive revenue. The City's revenue source options are dictated by the Commonwealth of Kentucky. Occupational license fees (payroll tax and net profit taxes) represent 54% of all General Fund Revenue. Detailed information can be found in the Management Discussion & Analysis in the Financial Section of this report.

A modest increase in revenue is predicted in the near future. In 2017, the City realized an uptick in property tax revenue driven primarily by increased property valuations and new growth. Since 2013, total taxable assessed value has increased by 10%. The City also recognized an increase in payroll tax revenue of 3.2% over fiscal year 2016

The City received an upgrade from Baa1 to A3 from Moody's Investors Service in April of 2017. This change was primarily due to the City's strengthened financial management and improved fiscal planning.

Moody's based the City's rating on various considerations including a large stable tax base, recent policy implementation (Fiscal Stability Ordinance), and improved fiscal planning. Moody's April

report indicated that an important contributor to the positive outlook rating was the City's enactment of the Fiscal Stability Ordinance which established a formal policy for developing future budgets and for allocating carryover funds for years when the City's inflows exceeds its outflows.

The City kept its annual debt service payment amounts within historical ranges and through enactment of the Fiscal Stability Ordinance, strengthened its commitment to funding its two single-employer pension plans; City Employees' Retirement Plan and Police & Firemen's Retirement Plan. The Fiscal Stability Ordinance requires increased contributions to these plans, based upon the most recent actuarial reports, to achieve a level of 100% annual funding in no less than 4 years, thereby ensuring the solvency of these plans.

2017 was another successful year in Covington and the City continued building on our economic development momentum. Our historic buildings and long-vacant storefronts are now bustling with customers and inventory. Many exciting residential and commercial developments are either under construction or planned throughout our City, and employers are once again moving their operations to Covington where they can take advantage of our City's charm and our urban living options. With nearly 500 apartments either planned or under construction in 2017, we look forward to building on this momentum in 2018.

The Following is a list of select projects that were completed in 2017 or started construction in 2017:

**Completed Projects in 2017:**

**The Boone Block:** The \$3.3MM Boone Block project was the conversion of a 24,720 square-foot historic building into nine single-family attached townhomes. Each unit was comprised of three levels, an oversized one-car garage, a gated courtyard, a deck and an optional balcony. Sizes ranged from 2,185 to 5,000 square feet. All townhomes sold with the average sales price of about \$340,000. The property was completed in 2017.

**CTI Relocation:** CTI Clinical Trial and Consulting Services, a global, privately held company providing therapeutic expertise to the pharmaceutical and biotechnology industries, relocated its headquarters to Covington with a \$36.4 million investment projected to create up to 500 Kentucky-resident jobs. CTI moved 250 existing employees from the Cincinnati suburb of Blue Ash, Ohio into a renovated 125,000 square foot office at RiverCenter. All employees had moved in by Fall 2017.

**Huntington Bank:** Attracted to Covington's numerous walkable amenities, Huntington chose to relocate more than 100 jobs into their historic headquarters location on Madison Avenue. Huntington rehabbed the five-story building and moved employees into the space in Summer 2017.

**Under Construction Projects in 2017:**

**Bavarian Brewery:** This is a \$25MM redevelopment of the former Bavarian Brewing property into 80,000 SF of office space for Kenton County's administrative campus. After completion of the Bavarian Brewery site in Summer 2019, the Developer will redevelop the county's existing building at 303 Court St into residential units.

**The Bradford:** The Bradford on Scott is a \$2.3MM adaptive re-use of a 14,800 SF, three-story historic building into five condominium units and five commercial spaces at street level. The renovation design calls for units ranging in size from 1,800-2,500 SF

and all units will offer 2 bedrooms with a study and roof decks. Project completion is expected Winter 2018.

**Duveneck Square:** The \$17MM Phase I will bring a 110-unit market-rate apartment building with 5,000 square feet of first-floor commercial space into the heart of Covington's Pike Street corridor. Phase 1 will be complete in Spring 2018. Upon its completion, a second phase will commence, producing a parking structure and retail and three office pads.

**501 Main:** The \$40 MM River Haus broke ground in 2017 and will add 189 luxury apartments, a parking garage and about 4,000 square feet of commercial space into Mainstrasse Village. This premier development will allow residents excellent walkable to Mainstrasse's fantastic amenities. The project is expected to be complete by Winter 2018.

**Road ID:** Road ID, a local Northern Kentucky family-owned business manufacturing custom identification equipment, will relocate its headquarters to Covington for 72 existing and future employees. Road ID's \$4 million renovation will restore a historic property in the Madison Avenue corridor and complement the development activity happening nearby. Renovations started in Summer 2017 and are expected to be complete by Spring 2018.

The preparation of this comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Department of Finance and various members of other City departments. Each member has our sincere appreciation for the contributions made in the preparation of this report. We also acknowledge the professional efforts of RFH, CPAs for their work in preparing this report. Recognition is also given to the Mayor and Commissioners of the City of Covington, KY for their unfailing interest, support, and integrity in guiding the City's financial operations.

Respectfully submitted,



David Johnston  
City Manager



Jerome A. Heist  
Senior Accounting Manager

City of Covington, Kentucky  
Elected and Appointed Officials  
June 30, 2017

Elected Officials

Mayor .....	Joseph Meyer
Commissioner/Mayor Pro Tem.....	Michelle Williams
Commissioner .....	Tim Downing
Commissioner .....	Jordan Huizenga
Commissioner .....	William Wells

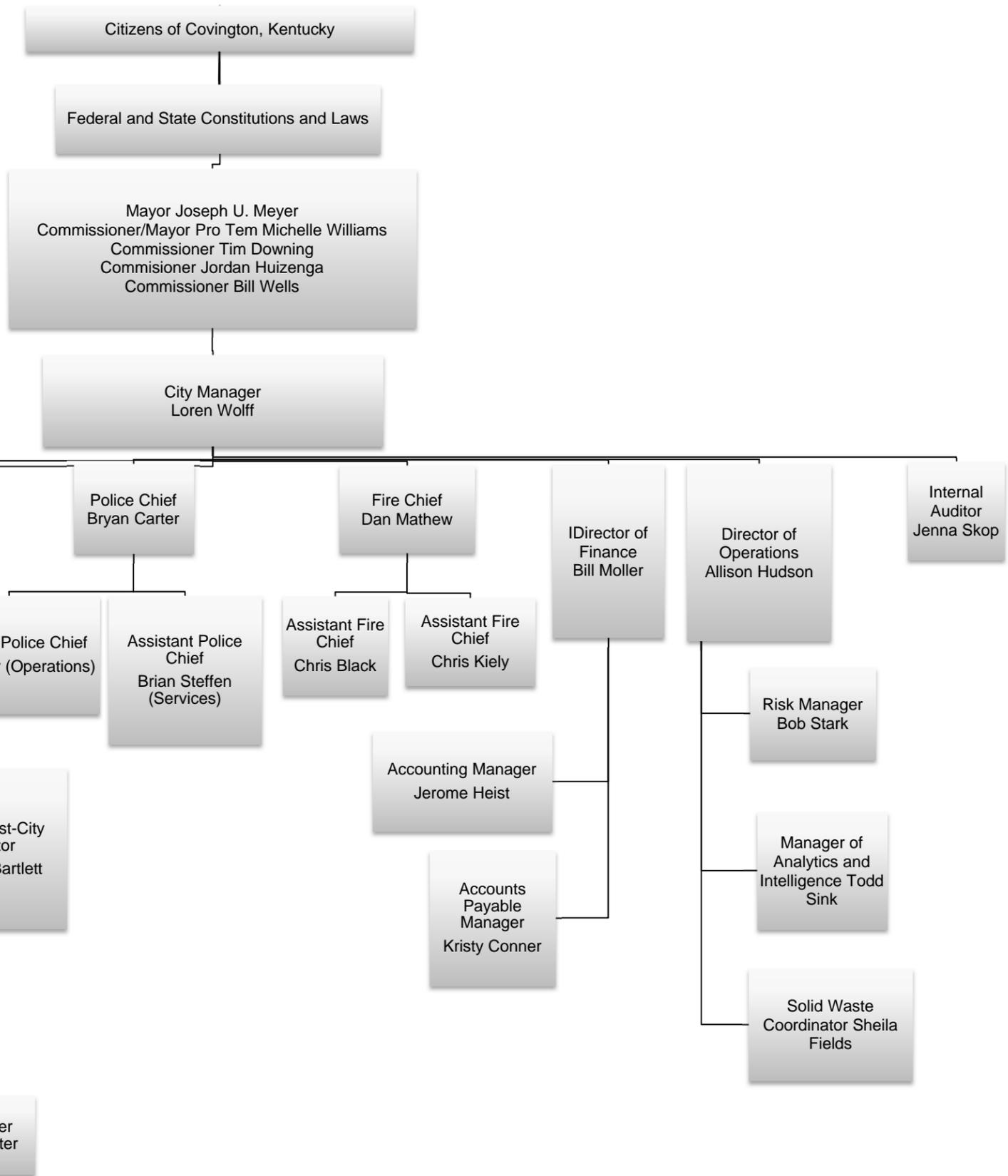
Appointed Officials

City Manager.....	Loren Wolff
Assistant City Manager/City Solicitor.....	Frank Warnock
Finance Director .....	William Moller
Operations Director .....	Allison Hudson
Internal Auditor .....	Jenna Skop
City Clerk.....	Margaret Nyhan
Chief of Police .....	Bryan Carter
Fire Chief.....	Dan Mathew
Public Services Director/Assistant City Engineer .....	Rick Davis
Community Development Director .....	Jeremy Wallace
Development Director/City Engineer .....	Mike Yeager
Human Resources Director .....	Jo Ann Simpson

# CITY OF COVINGTON, KENTUCKY

## ORGANIZATIONAL CHART

JUNE 30, 2017





Government Finance Officers Association

**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, 2016**

Executive Director/CEO

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**FINANCIAL  
SECTION**

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## INDEPENDENT AUDITORS' REPORT

To the Mayor and City Commissioners  
City of Covington, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Covington, Kentucky's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Devou Properties, Inc. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Devou Properties, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 11–22, 69–72, and 73-78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2018, on our consideration of the City of Covington, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Covington, Kentucky's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
January 25, 2018

**City of Covington, Kentucky**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2017**

*(Unaudited)*

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The following is a narrative overview and analysis of the financial activities of the City of Covington, Kentucky for the Fiscal Year ending June 30, 2017. This discussion and analysis serves as an introduction to the City's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

**Financial Highlights**

The City's financial highlights for the fiscal year ended June 30, 2017 include:

- The City's FY 2017 carry-over is \$4,062,121 resulting in a General Fund balance at year-end of \$12,954,030.
- The City recognized an increase in payroll tax revenue of 3.63% over FY 2016.
- The City recognized an increase in net profit revenue of 13.7% over FY 2016.
- The City's insurance license fee increased to \$7,909,903 in FY 2017, an increase of \$977,351 over the previous year.
- The City Refinanced \$9,185,000 in prior year debt and issued new debt in the form of capital leases totaling \$3,791,165.
- Waste Fee revenue and Ambulance Fee revenue were moved outside of the General fund resulting in their own respective Funds

**Overview of the Financial Statements**

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

**Government-wide Financial Statements.** The *government-wide financial statements* provide readers with a broad overview of the City's finances.

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

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

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

The government-wide financial statements include the *primary government* and Devou Properties, Inc., a legally separate non-profit organization. Financial information for Devou Properties, Inc. is reported separately from the financial information presented for the primary government itself. The Municipal Properties Corporation, although a legally separate entity, functions as a department of the City and therefore has been included as an integral part of the primary government.

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

**Governmental Funds:** Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements, however, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

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

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Pension Obligation 2004 Fund, Neighborhood Stabilization Program Fund, and the Capital Improvement Fund, which are considered to be major funds. Data from other governmental funds are combined into a single aggregated presentation.

The City adopts an annual appropriation budget for its governmental funds. A budgetary comparison statement is provided for general and special revenue major funds to demonstrate compliance with budgets.

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

**Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City is trustee, or fiduciary, for two retirement funds; the Police and Firemen's Retirement Fund and the Employee's Retirement Fund. Both of these funds are closed pension funds held solely for trust beneficiaries.

**Notes to the Financial Statements:** The notes to financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements.

**Financial Analysis of the Government-Wide Financial Statements**

The *Statement of Net Position* presents information on the City's assets, liabilities, and deferred outflows and inflows of resources. *Net position (deficit)* is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Increases or decreases in net position can serve as a useful indicator of the overall health of the City's financial position.

Net position, over time, may serve as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows of resources exceeded assets and deferred outflows by \$19,643,896, at the close of the most recent fiscal year.

**Statement of Net Position**

	<u>Governmental Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Current and other assets	\$ 39,375,350	\$ 41,171,856	\$(1,796,506)
Capital assets	<u>68,701,968</u>	<u>59,048,138</u>	<u>9,653,830</u>
<b>Total assets</b>	<b><u>108,077,318</u></b>	<b><u>100,219,994</u></b>	<b><u>7,857,324</u></b>
<b>Deferred outflows of resources</b>	<b><u>14,343,559</u></b>	<b><u>12,063,581</u></b>	<b><u>2,279,978</u></b>
<b>Long-term liabilities:</b>			
Net pension liability	68,874,286	68,771,025	103,261
Other long-term amounts	62,356,472	61,618,626	737,846
Other liabilities	<u>9,623,600</u>	<u>8,829,495</u>	<u>794,105</u>
	<b><u>140,854,358</u></b>	<b><u>139,219,146</u></b>	<b><u>1,635,212</u></b>
<b>Deferred inflows of resources</b>	<b><u>1,210,415</u></b>	<b><u>424,522</u></b>	<b><u>785,893</u></b>
<b>Net position:</b>			
Net investment in capital assets	23,790,740	26,724,688	(2,933,948)
Restricted	5,854,839	2,654,014	3,200,825
Unrestricted (deficit)	<u>(49,289,475)</u>	<u>(56,738,795)</u>	<u>7,449,320</u>
<b>Total net position</b>	<b><u>\$ (19,643,896)</u></b>	<b><u>\$ (27,360,093)</u></b>	<b><u>\$ 7,716,197</u></b>

By far, the largest portion of the City's net position (\$23,790,740) reflects its investment in capital assets (e.g., land and improvements, construction in progress, buildings and improvements, machinery and equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (\$5,854,839) represents resources that are subject to use restrictions from external sources. The remaining balance is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

As noted earlier, increases and decreases of net position can serve as a useful indicator of changes in a government's financial position. In Fiscal Year 2017, liabilities and deferred inflows of resources exceed assets and deferred outflows of resources by \$19.6 million. While total assets increased from the prior fiscal year (FY2016) by \$7,857,324, total liabilities also increased by \$1,635,212 driven primarily by increases in long-term debt and other liabilities.

### Statement of Activities

	<u>Governmental Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
<b>Program revenues:</b>			
Charges for services	\$ 6,915,460	\$ 9,314,685	\$ (2,399,225)
Operating grants and contributions	10,178,394	9,564,948	613,446
Capital grants and contributions	<u>456,927</u>	<u>867,341</u>	<u>(410,414)</u>
<b>Total program revenues</b>	<b><u>17,550,781</u></b>	<b><u>19,746,974</u></b>	<b><u>(2,196,193)</u></b>
<b>General revenues:</b>			
Taxes	45,759,262	43,511,223	2,248,039
Investment earnings	222,575	164,973	57,602
Miscellaneous	<u>368,406</u>	<u>430,663</u>	<u>(62,257)</u>
<b>Total general revenues</b>	<b><u>46,350,243</u></b>	<b><u>44,106,859</u></b>	<b><u>2,243,384</u></b>
<b>Total revenues</b>	<b><u>63,901,024</u></b>	<b><u>63,853,833</u></b>	<b><u>47,191</u></b>
<b>Expenses:</b>			
General government	6,604,320	10,612,219	(4,007,899)
Police	14,453,789	16,091,991	(1,638,202)
Fire	13,176,016	15,301,811	(2,125,795)
Public improvements	8,784,729	7,806,788	977,941
Community development	10,312,912	9,789,169	523,743
Parking garage	868,353	774,460	93,893
Interest on long-term debt	<u>1,984,708</u>	<u>2,171,812</u>	<u>(187,104)</u>
<b>Total expenses</b>	<b><u>56,184,827</u></b>	<b><u>62,548,250</u></b>	<b><u>(6,363,423)</u></b>
Change in net position	7,716,197	1,305,583	6,410,614
Net position beginning of year	<u>(27,360,093)</u>	<u>(28,665,676)</u>	<u>(1,305,583)</u>
<b>Net position end of year</b>	<b><u>\$ (19,643,896)</u></b>	<b><u>\$ (27,360,093)</u></b>	<b><u>\$ (7,716,197)</u></b>

In Fiscal Year 2017, government-wide revenues increased from Fiscal Year 2016 by approximately \$47,000 and government-wide expenses decreased by approximately \$6.4 million.

### The major components of the government-wide revenue increases were:

- Charges for Services Revenue decreased in Fiscal Year 2017 from Fiscal Year 2016 due to:
  - A decrease in Waste Management Fees collected, due to the Waste Management company taking over the billing of fees

- Taxes Revenue was higher in Fiscal Year 2017 than Fiscal Year 2016 due to
  - An increase in Payroll Tax collected of \$901,774
  - An increase in Net Profit Tax collected of \$401,234
  - An increase in Insurance Premium Fees collected of \$977,351

**The major components of changes in government-wide expenses were:**

- Police and Fire Expenditures were lower in Fiscal Year 2017 than Fiscal Year 2016 due to:
  - Recognition of expenditures related to the City's proportionate share of the CERS pension expenses made in the prior year were larger than in the current year.
- General government Expenditures were lower in Fiscal Year 2017 than Fiscal Year 2016 due to:
  - The Waste Management contract no longer being paid directly to the vendor from the General Fund. The vendor administered the collection of waste fees, and expenses were paid net of fee collection.

**Financial Analysis of Governmental Funds**

At June 30, 2017, the City's governmental funds reported combined fund balances of \$21,327,659, a decrease of \$2,580,762 from the prior fiscal year. The majority of this decrease occurred in the Capital Improvement Fund as a result of additional capital outlays such as the Devou Clubhouse project and other infrastructure improvements as well as equipment purchases.

Approximately 40% of the \$21,327,659 (\$8,598,828) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is non-spendable, restricted, or committed. Non-spendable fund balance of \$157,023, cannot be spent either because it is in non-spendable form or because there are legal or contractual reasons it cannot be spent. Restricted funds, \$5,854,839, are amounts that can be spent only for specific purposes e.g. (1) for approved Capital Improvement projects, (2) or restricted by state or federal laws, or (3) or restricted by externally imposed conditions by grantors or creditors.

Committed funds, \$6,716,969, are amounts that can be used only for specific purposes as determined by formal action of the City Commission by ordinance or resolution. Funds within the Committed category include deposits in accounts per the City's Fiscal Stability Ordinance, O-11-16. The City's Fiscal Stability Ordinance was created to establish and prioritize fiscal stability, sustainability, and growth. The ordinance specifically authorizes a process for ensuring that the City's legal and financial obligations are met by specifying deposit accounts such as the (1) Minimum General Fund – Unreserved Fund - used to meet the general operating expenses of the City including payroll, benefits and other operating expenses when the City experiences a downturn, (2) the Self-insured Liability Fund – used to manage the City's risk exposure for general liability claims against the City, and (3) the Self-insured Employee Health Plan Fund – used to provide for reliable funding of the City's Self-Insured Employees Health Plan.

Funds within the Committed category also include deposits in the (1) Personnel and Benefits Fund – used for the staffing and compensation needs of the City as determined by the Board of Commissioners, (2) Infrastructure Fund – used to provide for more reliable funding and reinvestment in the City's infrastructure needs, e.g. streets, curbs, sidewalks, street lights, sewers, and bridges, and (3) Capital Reserve Fund – used to provide for more reliable funding and reinvestment in the City's infrastructure needs and to reduce the City's reliance on long-term debt as a financing tool for such needs.

The Fiscal Stability Ordinance also reaffirmed previous ordinances that established deposit accounts specific to purposeful spending. The ordinances reaffirmed by the Fiscal Stability Ordinance and contributing to the Committed category include:

- Fleet, Equipment, Technology, Facilities and Other Capital Projects Fund – used to provide for the City’s business needs so that services can be efficiently and effectively maintained and delivered, including fleet, equipment, technology, facilities, and other capital projects as determined by the Board of Commissioners
- Covington Economic Development Program Fund – used to provide for more reliable funding of economic development projects, programs, and services as recommended to the Board of Commissioners by the Covington Economic Development Authority
- Tax Increment Financing Fund – used to provide for the City’s economic development needs dedicating 80% of the City’s Incremental Revenues from the City Real Property Ad Valorem Taxes and Occupational Taxes generated within the Tax Increment Financing (TIF) district to economic development activities

**CITY OF COVINGTON, KENTUCKY**

Balance Sheet  
Governmental Funds  
June 30, 2017

	General	Pension Obligation 2004 Fund	Neighborhood Stabilization Program	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 9,372,959	\$ -	\$ -	\$ 5,597,276	\$ 5,183,963	\$ 20,154,198
Cash held in escrow	-	401,000	-	-	-	401,000
Receivables (net of allowance for doubtful accounts):						
Taxes	7,259,926	-	-	-	-	7,259,926
Intergovernmental	-	-	-	-	801,097	801,097
Notes	3,780,000	-	2,467,490	-	496,607	6,744,097
Accounts	420,476	-	-	-	54,732	475,208
Due from other funds	1,785,675	-	-	107,223	289,719	2,182,617
Due from fiduciary funds	1,122,020	-	-	-	-	1,122,020
Prepaid items	157,023	-	-	-	-	157,023
Total assets	<u>\$ 23,898,079</u>	<u>\$ 401,000</u>	<u>\$ 2,467,490</u>	<u>\$ 5,704,499</u>	<u>\$ 6,826,118</u>	<u>\$ 39,297,186</u>
<b>Liabilities:</b>						
Accounts payable	\$ 667,801	\$ -	\$ -	\$ 1,328,362	\$ 759,183	\$ 2,755,346
Accrued liabilities	2,395,141	-	-	-	-	2,395,141
Due to other funds	1,916,676	-	-	-	1,826,328	3,743,004
Unearned revenue	7,599	-	-	-	141,896	149,495
Total liabilities	<u>4,987,217</u>	<u>-</u>	<u>-</u>	<u>1,328,362</u>	<u>2,727,407</u>	<u>9,042,986</u>
<b>Deferred Inflow of Resources:</b>						
Unavailable revenue	<u>5,956,832</u>	<u>-</u>	<u>2,467,490</u>	<u>-</u>	<u>502,219</u>	<u>8,926,541</u>
<b>Fund balances:</b>						
Nonspendable	157,023	-	-	-	-	157,023
Restricted	-	401,000	-	4,376,137	1,077,702	5,854,839
Committed	3,761,124	-	-	-	2,955,845	6,716,969
Unassigned	9,035,883	-	-	-	(437,055)	8,598,828
Total fund balances	<u>12,954,030</u>	<u>401,000</u>	<u>-</u>	<u>4,376,137</u>	<u>3,596,492</u>	<u>21,327,659</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 23,898,079</u>	<u>\$ 401,000</u>	<u>\$ 2,467,490</u>	<u>\$ 5,704,499</u>	<u>\$ 6,826,118</u>	<u>\$ 39,297,186</u>

The City also recognized an increase in payroll tax revenue of 3.63% over Fiscal Year 2016. The City's 2016-2017 budget process did not reduce staff or departmental expenditures. The City's Fiscal Year 2017 carry-over is \$4,062,121 resulting in a General Fund balance at the end of year of \$12,954,030. A significant driver to this year's carry-over includes an increase in general fund revenues, tighter controls on expenditures, and compliance with the City's Fiscal Stability Ordinance

**CITY OF COVINGTON, KENTUCKY**

Statement of Revenues, Expenditures and Changes  
in Fund Balances  
Governmental Funds  
Fiscal Year Ended June 30, 2017

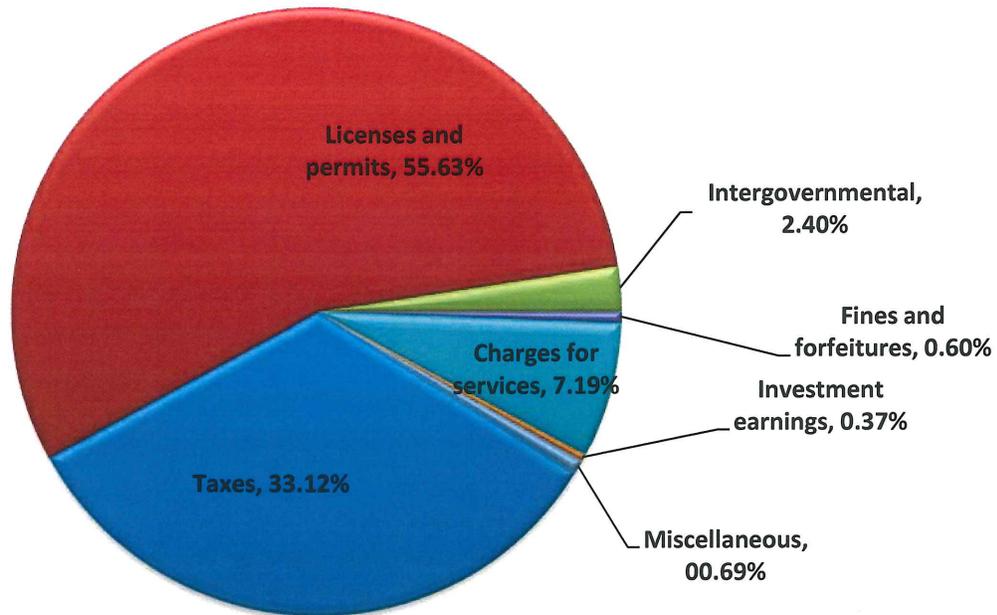
	General	Pension Obligation 2004 Fund	Neighborhood Stabilization Program	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	\$ 17,071,793	\$ -	\$ -	\$ -	\$ -	\$ 17,071,793
Licenses and permits	28,674,704	-	-	-	-	28,674,704
Intergovernmental	1,236,954	-	-	-	9,379,553	10,616,507
Charges for services	3,704,477	-	-	-	2,324,280	6,028,757
Fines and forfeitures	309,267	-	-	-	-	309,267
Investment earnings	188,823	-	-	33,378	374	222,575
Miscellaneous	363,853	-	-	32,188	793,430	1,189,471
Total revenues	51,549,871	-	-	65,566	12,497,637	64,113,074
<b>Expenditures:</b>						
Current:						
General government	5,073,602	-	-	-	773,365	5,846,967
Police	13,620,811	-	-	-	713,120	14,333,931
Fire	12,749,072	-	-	-	584,264	13,333,336
Public improvements	5,130,311	-	-	215,886	1,406,140	6,752,337
Community development	2,128,044	-	-	-	7,728,597	9,856,641
Parking garage	868,353	-	-	-	-	868,353
Debt service:						
Principal	12,029,825	-	-	-	203,262	12,233,087
Interest	1,765,335	-	-	-	23,097	1,788,432
Bond issuance costs	252,629	-	-	-	-	252,629
Capital outlay	244,399	-	-	7,016,392	6,226,611	13,487,402
Total expenditures	53,862,381	-	-	7,232,278	17,658,456	78,753,115
Excess (deficiency) of revenues over (under) expenditures	(2,312,510)	-	-	(7,166,712)	(5,160,819)	(14,640,041)
<b>Other financing sources (uses):</b>						
Transfers in	2,089,588	-	-	450,000	4,204,142	6,743,730
Transfers out	(5,041,548)	-	-	-	(2,760,659)	(7,802,207)
Sale of assets	141,591	-	-	-	-	141,591
Inception of capital lease	-	-	-	-	3,791,165	3,791,165
Issuance of bonds	9,185,000	-	-	-	-	9,185,000
Total other financing sources (uses)	6,374,631	-	-	450,000	5,234,648	12,059,279
Net change in fund balances	4,062,121	-	-	(6,716,712)	73,829	(2,580,762)
Fund balance, beginning of year	8,891,909	401,000	-	11,092,849	3,522,663	23,908,421
Fund balance, end of year	\$ 12,954,030	\$ 401,000	\$ -	\$ 4,376,137	\$ 3,596,492	\$ 21,327,659

The following schedules present a summary of the General Fund revenues and expenditures for the current fiscal year.

**General Fund Revenues for the Fiscal Year Ended June 30, 2017**

	<u>2017</u>	<u>Percent</u> <u>of Total</u>	<u>2016</u>	<u>Percent</u> <u>Change</u>
Taxes	\$ 17,071,793	33.12%	\$ 16,042,423	30.62%
Licenses and permits	28,674,704	55.63%	27,465,856	52.42%
Intergovernmental	1,236,954	2.40%	884,029	1.69%
Fines and forfeitures	309,267	0.60%	304,473	0.58%
Charges for services	3,704,477	7.19%	7,225,496	(48.7)%
Investment earnings	188,823	0.37%	164,777	0.31%
Miscellaneous	<u>363,853</u>	<u>0.69%</u>	<u>309,325</u>	<u>0.59%</u>
<b>Total Revenue</b>	<b><u>\$ 51,549,871</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 52,396,379</u></b>	<b><u>(1.61)%</u></b>

**2017 General Fund Revenues**



Revenue decreased in Fiscal Year 2017, with total General Fund revenue decreasing by \$846,508, or 1.61%, from Fiscal Year 2016 to Fiscal Year 2017. Both Waste Fee revenue, other than the revenue deferred in the General Fund as of June 30, 2016, and Ambulance Fee revenue are no longer being collected in the General Fund during Fiscal Year 2017, resulting in a decrease in revenues of \$3,159,153. Squad run revenue was under budget by \$1,422,846 because this revenue is being collected in a separate fund and being returned to the General Fund as a transfer. These revenue sources were transferred out of the General Fund to their own respective funds for better accountability. An increase in Payroll License Fees is a strong indicator of job growth in the City. Over the previous fiscal year, Payroll License Fees increased 3.63% or \$901,774.

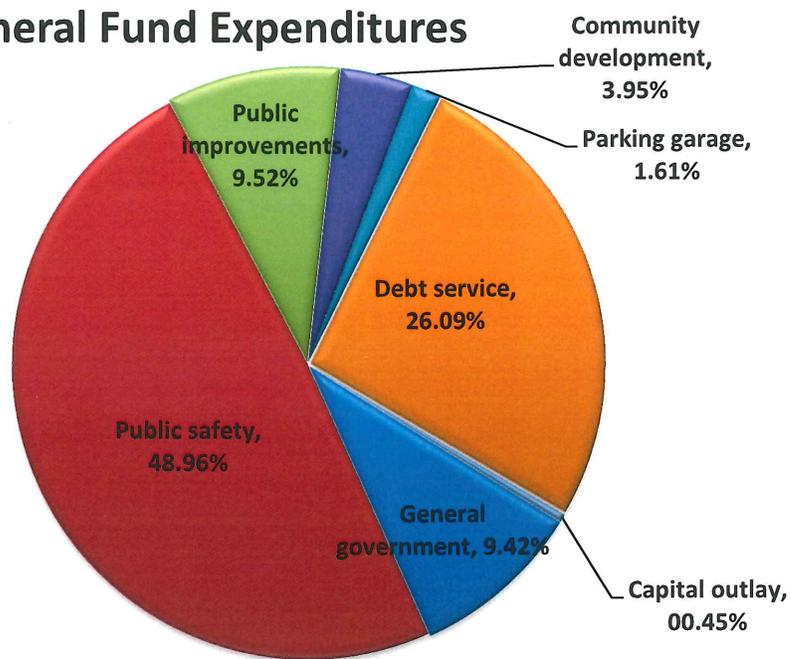
Taxes, which include Real Estate Taxes, Personal Property Taxes, and Insurance Premium Fees increased by \$1,029,370, or 6% from the prior fiscal year. Licenses and permits increased by \$1,208,848, or 4% from the prior fiscal year due to an increase in payroll tax. The City anticipates modest growth to continue into Fiscal Year 2018.

**General Fund Expenditures for the Fiscal Year Ended June 30, 2017**

	<u>2017</u>	<u>Percent of Total</u>	<u>2016</u>	<u>Percent Change</u>
General government	\$ 5,073,602	9.42%	\$ 6,496,468	-21.90%
Public safety	26,369,883	48.96%	25,243,073	4.45%
Public improvements	5,130,311	9.52%	5,382,692	-4.69%
Community development	2,128,044	3.95%	1,431,088	48.70%
Parking garage	868,353	1.61%	774,460	12.12%
Capital outlay	244,399	0.45%	738,336	-66.90%
Debt service	<u>14,047,789</u>	<u>26.09%</u>	<u>5,220,457</u>	<u>169.09%</u>
<b>Total Expenditures</b>	<b><u>\$ 53,862,381</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 45,286,574</u></b>	<b><u>18.94%</u></b>

General Fund expenditures increase in Fiscal Year 2017, with total General Fund expenditures increasing by \$8,575,807, or 19% Fiscal Year 2017 over Fiscal Year 2016. Increases in expenditures were the result of requirements in new collective bargaining agreements with the City's three Unions and the issuance of new debt to fund equipment purchase and the refinance of old debt. The Public Improvement Department was under budget by \$1,531,978, due in part to a mild winter which resulted in less expenditures for snow removal, as well as infrastructure improvements that were budgeted in the General Fund but paid out of the Capital Improvement Fund. The Police Department was over budget by \$317,308 as a result of labor contract items that were not considered during the budget reappropriation process. Almost all other City Departments were under budget for payroll items due to turnover or staff shortages. Total debt service was over budget by \$9,125,613. This was due to the refinancing of existing bond debt and is offset by the proceeds of issuing refunding bonds, shown as an other financing source. No budget consideration was made for this activity during the budgeting process, due to the fact the net effect for the year was zero.

## 2017 General Fund Expenditures



### Capital Assets and Debt Administration

**Capital Assets:** The City's investment in capital assets for its governmental activities as of June 30, 2017 amounts to \$68,701,968 (*net of accumulated depreciation*), an increase of \$9,653,830 from the prior fiscal year. This investment includes land and improvements, buildings and improvements, machinery and equipment, vehicles, infrastructure and construction in progress. The total increase in capital assets for the current fiscal year was 16.35% over the prior fiscal year.

#### Capital Assets at June 30, 2017

(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 14,800,827	\$ 14,800,827
Land improvements	2,072,096	2,072,096
Buildings	13,456,265	13,149,747
Building improvements	3,951,659	4,556,660
Machinery and equipment	712,322	860,709
Vehicles	4,920,945	1,230,140
Infrastructure	22,765,608	19,678,987
Construction in progress	6,022,246	2,698,972
<b>Totals</b>	<b><u>\$ 68,701,968</u></b>	<b><u>\$ 59,048,138</u></b>

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

**Long-term Debt:** At the close of the current fiscal year, the City had outstanding notes, bonds and capital leases of \$58,331,228, which is backed by the full faith and credit of the City.

**Outstanding Long-term Debt Obligations at June 30, 2017**

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Mortgage bonds and notes	\$ 40,540,118	\$ 35,952,005
Capital Leases	<u>17,791,110</u>	<u>21,647,721</u>
<b>Total</b>	<b><u>\$ 58,331,228</u></b>	<b><u>\$ 57,599,726</u></b>

The City issues and incurs debt in order to fund capital improvement projects, purchase capital equipment and facilities, and to support economic development. The City's outstanding debt increased by \$731,502, or 1%, over the prior fiscal year. . This represents the net difference resulting from refinancing of \$9,185,000 of prior year debt into a 2016 Bond issuance as well as issuing new debt in the form of capital leases to finance vehicles and equipment totaling \$3,791,165 in addition to the City's yearly debt service. Additional information on the City's long-term debt can be found in Note 7.

**Economic Factors and Next Year's Budget**

The budget for Fiscal Year 2018 was developed and adopted by the Board of Commissioners as a structurally balanced budget per Kentucky Revised Statue, KRS 83A.150(7)(c) and the State's Constitution.

**Fiscal Year 2018 Goals include:**

- Establishing a rolling five-year (5) Capital Plan
- Reducing reliance on long-term debt to finance Capital
- Establishing a long-term debt policy
- Continuing to improve the City's Credit Rating
- Continuing to leverage the City's investments in infrastructure with non-City investments
- Establishing a long-term Tax Rate Reduction plan with the goal of fairness, balance and competitiveness

**Fiscal Year 2018 Assumptions include:**

- No staffing reductions in any department across the City
- No departmental operational items deductions
- Property Tax Rate and Personal Property Tax Rate increases
- Maintenance of the four (4) new police officers added in the Fall of 2016
- Moving the Business Analyst in the Fire Department from part time to full time
- Addition of the new Systems Analyst & Project Manager and hire a Full Time City Manager
- Maintaining staffing in the Fire Department
- A planned wage increase of 2.5% for any nonunion employees
- Discussion with the City's three (3) Unions regarding Collective Bargaining Agreements, all of which are currently under contract
- An increase in the City's Employer Contribution Rate for pension contributions from 31.06% to 31.55% for Public Safety personnel
- An increase in the City's Employer Contribution Rate for pension contributions from 18.68% to 19.18% for all other personnel

- Increased contributions to the City's legacy Pension Funds per the Fiscal Stability Ordinance moving the contributions closer to the goal of 100% funding per the most recent actuarial reports
- The introduction of a new Health Plan Option – Referenced Based Plan – offered to non-union employees and as Union contracts are negotiated, to union employees

The City was able to successfully develop a Fiscal Year 2018 budget based upon the above goals and assumptions. In addition, the City committed additional funds for several projects including establishing a Neighbor fund, IRS relocation study, establishing a Housing Rehabilitation Assistance program, expanding the rent subsidy/technical assistance program, and funding an organizational study of city operations. The City also budgeted for excess liability insurance coverage. The City also approved over \$22 million in additional spending for infrastructure improvements and equipment purchases out of capital funding sources.

In FY 2018 the City budgeted a modest increase in Revenues based upon the past three-year trend of 1 – 3% revenue growth.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, 20 West Pike Street, Covington, KY 41011.

**CITY OF COVINGTON, KENTUCKY**

Statement of Net Position  
June 30, 2017

	Primary Government	Component Unit
	<u>Governmental Activities</u>	<u>Devou Properties, Inc.</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 22,414,979	\$ 2,227,885
Cash with fiscal agent	-	-
Cash held in escrow	401,000	
Receivables (net of allowance for doubtful accounts)		
Taxes	7,259,926	-
Intergovernmental	801,097	-
Notes	6,744,097	-
Accounts	475,208	254,797
Due from fiduciary activities	1,122,020	-
Prepaid items	157,023	6,882
Nondepreciable capital assets	22,895,169	-
Depreciable capital assets, net	<u>45,806,799</u>	<u>66,584</u>
<i>Total assets</i>	<u>108,077,318</u>	<u>2,556,148</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows - pensions	<u>14,343,559</u>	-
<i>Total deferred outflows of resources</i>	<u>14,343,559</u>	-
<b>Liabilities</b>		
Accounts payable	2,850,982	51,186
Accrued liabilities	2,395,141	390,584
Claims payable	1,499,976	-
Accrued interest payable	260,516	-
Unearned revenue	2,616,985	-
Noncurrent liabilities:		
Due within one year	5,389,946	-
Due in more than one year:		
Net pension liability	68,874,286	-
Claims payable	2,568,280	-
Other	<u>54,398,246</u>	-
<i>Total liabilities</i>	<u>140,854,358</u>	<u>441,770</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows - pensions	<u>1,210,415</u>	-
<b>Net Position</b>		
Net investment in capital assets	23,790,740	66,584
Restricted for:		
Capital improvements	4,376,137	-
Debt service	401,000	-
HUD programs	651,007	-
Other purposes	426,695	-
Unrestricted (deficit)	<u>(49,289,475)</u>	<u>2,047,794</u>
<i>Total net position</i>	<u>\$ (19,643,896)</u>	<u>\$ 2,114,378</u>

See accompanying notes to the basic financial statements.

**CITY OF COVINGTON, KENTUCKY**

Statement of Activities

Fiscal Year Ended June 30, 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component
					Governmental	Unit
				Governmental	Devou	
				Activities	Properties, Inc.	
<u>Functions/Programs</u>						
<u>Primary Government</u>						
Governmental activities:						
General government	\$ 6,604,320	\$ 2,640,012	\$ 420,379	\$ 456,927	\$ (3,087,002)	\$ -
Police	14,453,789	-	1,319,152	-	(13,134,637)	-
Fire	13,176,016	11,029	-	-	(13,164,987)	-
Public improvements	8,784,729	1,098,612	816,575	-	(6,869,542)	-
Community development	10,312,912	1,086,948	7,622,288	-	(1,603,676)	-
Parking garage	868,353	2,078,859	-	-	1,210,506	-
Interest on long-term debt	1,984,708	-	-	-	(1,984,708)	-
Total governmental activities	<u>56,184,827</u>	<u>6,915,460</u>	<u>10,178,394</u>	<u>456,927</u>	<u>(38,634,046)</u>	<u>-</u>
<u>Component Unit</u>						
Devou Properties, Inc.	<u>875,364</u>	<u>873,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,029)</u>
Total	<u>\$ 57,060,191</u>	<u>\$ 7,788,795</u>	<u>\$ 10,178,394</u>	<u>\$ 456,927</u>	<u>(38,634,046)</u>	<u>(2,029)</u>
General Revenues:						
Taxes:						
Real property taxes					6,566,434	-
Personal property taxes					676,397	-
Public service taxes					2,110,822	-
Taxes, levied for bank deposits					73,367	-
Insurance premium taxes					7,909,903	-
Payroll taxes					25,097,302	-
Net profit taxes					3,325,037	-
Investment earnings					222,575	1,226
Miscellaneous					368,406	-
Total general revenues					<u>46,350,243</u>	<u>1,226</u>
						-
Change in net position					7,716,197	(803)
Net position beginning of year					(27,360,093)	2,115,181
Net position end of year					<u>\$ (19,643,896)</u>	<u>\$ 2,114,378</u>

See accompanying notes to the basic financial statements.

CITY OF COVINGTON, KENTUCKY  
 Balance Sheet  
 Governmental Funds  
 June 30, 2017

	General	Pension Obligation 2004 Fund	Neighborhood Stabilization Program	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 9,372,959	\$ -	\$ -	\$ 5,597,276	\$ 5,183,963	\$ 20,154,198
Cash held in escrow	-	401,000	-	-	-	401,000
Receivables (net of allowance for doubtful accounts):						
Taxes	7,259,926	-	-	-	-	7,259,926
Intergovernmental	-	-	-	-	801,097	801,097
Notes	3,780,000	-	2,467,490	-	496,607	6,744,097
Accounts	420,476	-	-	-	54,732	475,208
Due from other funds	1,785,675	-	-	107,223	289,719	2,182,617
Due from fiduciary funds	1,122,020	-	-	-	-	1,122,020
Prepaid items	157,023	-	-	-	-	157,023
Total assets	<u>\$ 23,898,079</u>	<u>\$ 401,000</u>	<u>\$ 2,467,490</u>	<u>\$ 5,704,499</u>	<u>\$ 6,826,118</u>	<u>\$ 39,297,186</u>
<b>Liabilities:</b>						
Accounts payable	\$ 667,801	\$ -	\$ -	\$ 1,328,362	\$ 759,183	\$ 2,755,346
Accrued liabilities	2,395,141	-	-	-	-	2,395,141
Due to other funds	1,916,676	-	-	-	1,826,328	3,743,004
Unearned revenue	7,599	-	-	-	141,896	149,495
Total liabilities	<u>4,987,217</u>	<u>-</u>	<u>-</u>	<u>1,328,362</u>	<u>2,727,407</u>	<u>9,042,986</u>
<b>Deferred Inflow of Resources:</b>						
Unavailable revenue	<u>5,956,832</u>	<u>-</u>	<u>2,467,490</u>	<u>-</u>	<u>502,219</u>	<u>8,926,541</u>
<b>Fund balances:</b>						
Nonspendable	157,023	-	-	-	-	157,023
Restricted	-	401,000	-	4,376,137	1,077,702	5,854,839
Committed	3,761,124	-	-	-	2,955,845	6,716,969
Unassigned	9,035,883	-	-	-	(437,055)	8,598,828
Total fund balances	<u>12,954,030</u>	<u>401,000</u>	<u>-</u>	<u>4,376,137</u>	<u>3,596,492</u>	<u>21,327,659</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 23,898,079</u>	<u>\$ 401,000</u>	<u>\$ 2,467,490</u>	<u>\$ 5,704,499</u>	<u>\$ 6,826,118</u>	<u>\$ 39,297,186</u>

See accompanying notes to the basic financial statements.

**CITY OF COVINGTON, KENTUCKY**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2017

<b>Total fund balances - governmental funds</b>		<b>\$ 21,327,659</b>
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		68,701,968
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		6,459,051
Internal service funds are used by management to charge the cost of certain activities, such as liability and medical insurance, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.		(342,724)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds payable	\$ 40,332,534	
Capital lease payable	17,791,106	
Accrued interest payable	260,516	
Unamortized Premiums	207,584	
Compensated absences	<u>1,456,968</u>	
Total		<u>(60,048,708)</u>
The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows and inflows of resources are not		
Deferred outflows - pensions	\$ (14,343,559)	
Deferred inflows - pensions	1,210,415	
Net pension liability	<u>68,874,286</u>	
Total		<u>(55,741,142)</u>
<b>Net position of governmental activities</b>		<b><u>\$ (19,643,896)</u></b>

**CITY OF COVINGTON, KENTUCKY**  
Statement of Revenues, Expenditures and Changes  
in Fund Balances  
Governmental Funds  
Fiscal Year Ended June 30, 2017

	General	Pension Obligation 2004 Fund	Neighborhood Stabilization Program	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	\$ 17,071,793	\$ -	\$ -	\$ -	\$ -	\$ 17,071,793
Licenses and permits	28,674,704	-	-	-	-	28,674,704
Intergovernmental	1,236,954	-	-	-	9,379,553	10,616,507
Charges for services	3,704,477	-	-	-	2,324,280	6,028,757
Fines and forfeitures	309,267	-	-	-	-	309,267
Investment earnings	188,823	-	-	33,378	374	222,575
Miscellaneous	363,853	-	-	32,188	793,430	1,189,471
Total revenues	<u>51,549,871</u>	<u>-</u>	<u>-</u>	<u>65,566</u>	<u>12,497,637</u>	<u>64,113,074</u>
<b>Expenditures:</b>						
Current:						
General government	5,073,602	-	-	-	773,365	5,846,967
Police	13,620,811	-	-	-	713,120	14,333,931
Fire	12,749,072	-	-	-	584,264	13,333,336
Public improvements	5,130,311	-	-	215,886	1,406,140	6,752,337
Community development	2,128,044	-	-	-	7,728,597	9,856,641
Parking garage	868,353	-	-	-	-	868,353
Debt service:						
Principal	12,029,825	-	-	-	203,262	12,233,087
Interest	1,765,335	-	-	-	23,097	1,788,432
Bond issuance costs	252,629	-	-	-	-	252,629
Capital outlay	244,399	-	-	7,016,392	6,226,611	13,487,402
Total expenditures	<u>53,862,381</u>	<u>-</u>	<u>-</u>	<u>7,232,278</u>	<u>17,658,456</u>	<u>78,753,115</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,312,510)</u>	<u>-</u>	<u>-</u>	<u>(7,166,712)</u>	<u>(5,160,819)</u>	<u>(14,640,041)</u>
<b>Other financing sources (uses):</b>						
Transfers in	2,089,588	-	-	450,000	4,204,142	6,743,730
Transfers out	(5,041,548)	-	-	-	(2,760,659)	(7,802,207)
Sale of assets	141,591	-	-	-	-	141,591
Inception of capital lease	-	-	-	-	3,791,165	3,791,165
Issuance of bonds	9,185,000	-	-	-	-	9,185,000
Total other financing sources (uses)	<u>6,374,631</u>	<u>-</u>	<u>-</u>	<u>450,000</u>	<u>5,234,648</u>	<u>12,059,279</u>
Net change in fund balances	4,062,121	-	-	(6,716,712)	73,829	(2,580,762)
Fund balance, beginning of year	8,891,909	401,000	-	11,092,849	3,522,663	23,908,421
Fund balance, end of year	<u>\$ 12,954,030</u>	<u>\$ 401,000</u>	<u>\$ -</u>	<u>\$ 4,376,137</u>	<u>\$ 3,596,492</u>	<u>\$ 21,327,659</u>

See accompanying notes to the basic financial statements.

**CITY OF COVINGTON, KENTUCKY**  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 Fiscal Year Ended June 30, 2017

<b>Net change in fund balances - total governmental funds</b>	<b>\$ (2,580,762)</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense:	
Capital additions	13,487,402
Depreciation expense	(3,743,661)
In the statement of activities, loss on disposal of capital assets is reported, whereas only proceeds from sales are reported in the governmental funds.	(89,911)
Revenue in the statement of activities that do not provide current financial resources are reported as deferred inflows in the governmental funds.	67,428
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Compensated absences	(6,345)
Interest on long-term debt	44,776
Amortization of Premiums	11,577
Repayment of bonds, notes and lease principal is an expenditure in the governmental funds, whereas the payments reduce long-term liabilities in the statement of net position	12,233,087
Proceeds on the issuance of bonds, notes and leases are an other financing source in the governmental funds, whereas the proceeds increase long-term liabilities in the statement of net position	(12,976,165)
Internal service funds are used to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	157,423
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.	4,200,368
Revenue in the statement of revenues, expenditures and changes in fund balances that provide current financial resources	(279,474)
Except for amounts reported as deferred outflows or inflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities.	<u>(2,809,546)</u>
<b>Change in net position of governmental activities</b>	<b><u>\$ 7,716,197</u></b>

**CITY OF COVINGTON, KENTUCKY**

Statement of Net Position

Proprietary Funds

June 30, 2017

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 2,260,781
Due from other funds	<u>1,560,387</u>
Total assets	<u>3,821,168</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	95,636
Claims payable	<u>1,499,976</u>
	1,595,612
<b>Noncurrent Liabilities</b>	
Claims payable	<u>2,568,280</u>
Total Liabilities	<u>4,163,892</u>
<b>Net Position</b>	
Unrestricted	<u>(342,724)</u>
Total net position	<u>\$ (342,724)</u>

See accompanying notes to the basic financial statements.

**CITY OF COVINGTON, KENTUCKY**  
Statement of Revenues, Expenses  
and Changes in Net Position  
Proprietary Funds  
Fiscal Year Ended June 30, 2017

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b><i>Operating revenues:</i></b>	
Insurance premiums	\$ 4,375,079
Other	<u>4,047</u>
Total operating revenues	<u>4,379,126</u>
<b><i>Operating expenses:</i></b>	
Contractual services	975,978
Claims and judgments	<u>4,304,689</u>
Total operating expenses	<u>5,280,667</u>
Operating loss	(901,541)
<b><i>Non-operating revenues (expenses):</i></b>	
Investment income	<u>487</u>
Total non-operating revenues (expenses)	<u>487</u>
Loss before transfers	(901,054)
Transfers in	<u>1,058,477</u>
Change in net position	157,423
Net position, beginning of year	<u>(500,147)</u>
Net position, end of year	<u>\$ (342,724)</u>

See accompanying notes to the basic financial statements.

**CITY OF COVINGTON, KENTUCKY**

Statement of Cash Flows

Proprietary Funds

Fiscal Year Ended June 30, 2017

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b><i>Cash flows from operating activities:</i></b>	
Cash received from other funds	\$ 4,717,316
Cash received from other income	4,047
Cash payments for claims	<u>(5,411,675)</u>
Net cash used by operating activities	<u>(690,312)</u>
<b><i>Cash flows from noncapital financing activities:</i></b>	
Transfers	<u>1,058,477</u>
Net cash provided by noncapital financing activities	<u>1,058,477</u>
<b><i>Cash flows from investing activities:</i></b>	
Interest income	<u>487</u>
Net cash provided by investing activities	<u>487</u>
Net change	368,652
Cash and cash equivalents, beginning of year	<u>1,892,129</u>
Cash and cash equivalents, end of year	<u>\$ 2,260,781</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (901,541)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Due from/to other funds	342,238
Accounts payable	(3,889)
Claims payable	<u>(127,120)</u>
Net cash used by operating activities	<u>\$ (690,312)</u>

See accompanying notes to the basic financial statements.

**CITY OF COVINGTON, KENTUCKY**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2017

	Pension Trusts			Agency
	Employees' Retirement	Police and Firemen's Retirement	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 147,833	\$ 112,993	\$ 260,826	\$ 5,426
Bond mutual funds	212,893	466,557	679,450	-
Equity mutual funds	343,049	752,341	1,095,390	-
Other assets	<u>1,806,235</u>	<u>3,963,800</u>	<u>5,770,035</u>	-
Total assets	<u>2,510,010</u>	<u>5,295,691</u>	<u>7,805,701</u>	<u>5,426</u>
<b>Liabilities</b>				
Due to the primary government	591,342	530,678	1,122,020	-
Due to others	-	-	-	<u>5,426</u>
	<u>591,342</u>	<u>530,678</u>	<u>1,122,020</u>	<u>\$ 5,426</u>
<b>Net Position</b>				
Net position restricted for pensions	<u>\$ 1,918,668</u>	<u>\$ 4,765,013</u>	<u>\$ 6,683,681</u>	

See accompanying notes to the basic financial statements.

**CITY OF COVINGTON, KENTUCKY**  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Fiscal Year Ended June 30, 2017

	Pension Trusts		
	Employees' Retirement	Police and Firemen's Retirement	Total
<b>Additions</b>			
Contributions:			
Employer contributions	\$ 195,000	\$ 573,000	\$ 768,000
Impounding lot	-	2,184	2,184
Miscellaneous	-	15	15
Total revenue	<u>195,000</u>	<u>575,199</u>	<u>770,199</u>
Investment return:			
Interest and dividends	50,903	114,250	165,153
Net appreciation in fair value of investments	<u>196,404</u>	<u>440,518</u>	<u>636,922</u>
Total net investment return	<u>247,307</u>	<u>554,768</u>	<u>802,075</u>
Total additions	<u>442,307</u>	<u>1,129,967</u>	<u>1,572,274</u>
<b>Deductions</b>			
Benefit payments	494,764	1,346,830	1,841,594
Administration	<u>8,754</u>	<u>10,500</u>	<u>19,254</u>
Total deductions	<u>503,518</u>	<u>1,357,330</u>	<u>1,860,848</u>
Change in net position	(61,211)	(227,363)	(288,574)
Net position, beginning of year	<u>1,979,879</u>	<u>4,992,376</u>	<u>6,972,255</u>
Net position, end of year	<u>\$ 1,918,668</u>	<u>\$ 4,765,013</u>	<u>\$ 6,683,681</u>

See accompanying notes to the basic financial statements.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 1 - Summary of Significant Accounting Policies**

***Basis of Presentation***

The basic financial statements of the City of Covington, Kentucky (the City), 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. Financial accountability is defined as the appointment of a voting majority of the component units' board, and either (1) the City's ability to impose its will over the component unit or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

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 unit discussed below is included in the City's reporting entity as part of the primary government because of the significance of its operational and/or financial relationship with the City.

*Blended Component Unit Included Within the Reporting Entity.* The City of Covington Municipal Properties Corporation was formed to act as an agent and to be instrumental in the financing of public improvements and projects of a capital nature for the City and for the particular purpose of acquiring real estate located within the City and constructing, acquiring and equipping thereon capital improvements, facilities, buildings, structures and related appurtenances. The Corporation finances these projects by the issuance of debt. These debt issues are secured by (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.

*Discretely Presented Component Unit 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, 2016, 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.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 1 - Summary of Significant Accounting Policies - continued**

**Basis of Presentation Government-Wide Financial Statements**

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Significant revenues susceptible to accrual are payroll license fees, insurance fees and grant revenues. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 1 - Summary of Significant Accounting Policies - continued**

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government that are not accounted for in the other funds.
- The Neighborhood Stabilization Program Fund accounts for U.S. Department of Housing and Urban Development funds, passed through from the State, to develop low income rental units and owner occupied homes purchased out of foreclosure.
- The Capital Improvement Fund accounts for funds provided to the City by the Federal and State governments and public financing for the acquisition and/or construction of capital improvements and equipment.
- The Pension Obligation 2004 Fund accounts for the retirement of the Series 2004 Pension Obligation bonds to fund the Employees' Retirement Fund and the Police and Firemen's Retirement Fund. The bonds were refunded on October 21, 2014.

The City reports the following proprietary funds:

- The City has two internal service funds. One fund is for self-insurance for the City's health and dental insurance program for City employees. The second fund is for the self-insurance of the City's liability claims. Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Additionally, the City reports three fiduciary funds. The two pension trust funds account for the activities of the Employees' Retirement Fund and the Police and Firemen's Retirement Fund. These funds are for the accumulation of resources for pension benefit payments to qualified retired employees (see Note 9). The agency fund is for Covington's Community Development Initiative to develop vacant and abandoned properties.

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

***Cash and Cash Equivalents***

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

The City is authorized by state statute to invest in:

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

Cash with fiscal agent represents the balance available to be drawn from the issuance of bond proceeds for public improvements. Cash held in escrow represents a debt service reserve account to satisfy debt service requirements in the final year of maturity.

***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 September 15 and are due and payable on October 15. On October 16, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on October 16.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 1 - Summary of Significant Accounting Policies - continued**

**Notes Receivable**

Notes receivable are comprised of housing development and small business loans financed by a combination of resources appropriated by the City and allocations from the U.S. Department of Housing and Urban Development (HUD). As of June 30, 2017, the City had housing development and small business loans outstanding of \$17,620,062 and \$1,855,390, respectively. The City has recorded an allowance of \$15,152,572 on housing development and \$1,358,783 on small business loans. Although some loans are repaid, repayment may be limited to net proceeds after payment of the first mortgage and seller closing costs and; therefore most repayments are minimal. Additionally, many loans have favorable repayments terms to encourage home ownership that include deferral and/or forgiveness if homeowners remain in the home for a specified period of time. The City of Covington has a note receivable of \$3,780,000 from 638 Madison LLC, in regards to the Hotel Covington.

**Short-Term Interfund Receivables/Payables**

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

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items in both the government-wide and fund statements. The consumption method is used in the fund statements.

**Capital Assets**

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

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure, such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are recorded at their fair value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. The City maintains a capitalization threshold of four thousand dollars.

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

<u>Description</u>	<b>Governmental Activities</b> <u>Estimated Lives</u>
Buildings	30 years
Buildings and improvements	10 – 20 years
Public domain infrastructure	25 – 35 years
Vehicles	5 – 10 years
Office equipment	3 – 10 years

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 1 - Summary of Significant Accounting Policies - continued**

***Deferred Outflows of Resources***

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows are reported on the government-wide statement of net position for pension related liabilities.

***Compensated Absences***

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation. Vested or accumulated vacation leave that has matured and is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Accumulated sick leave lapses when employees leave employment of the City and, upon separation from service; no monetary obligation exists.

***Long-Term Obligations***

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

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

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

***Unearned Revenue***

In the statements of financial position, unearned revenue represents the amount for which revenue recognition criteria have not been met. In subsequent periods, when the incurrence of qualifying expenditures has been made, the liability for the unearned revenue is removed and the revenue is recognized.

***Deferred Inflows of Resources***

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include unavailable revenue and items related to the pension liabilities, unavailable revenue represent receivables that will not be collected within the available period (sixty days after fiscal year-end) and is only reported in the governmental fund financial statements. Deferred inflows of resources related to pension liabilities are reported in the government-wide statement of net position.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 1 - Summary of Significant Accounting Policies - continued**

***Net Position/Fund Balance***

Net position is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets is capital assets less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

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

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

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, when both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources - committed, assigned and unassigned - in order as needed.

**Revenues and Expenses**

***Operating Revenues and Expenses***

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

***Interfund Transactions***

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

***Use of Estimates***

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

***Budgetary Information***

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

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 2 - Stewardship, Compliance and Accountability**

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

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

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

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

***Excess of Expenditures over Appropriations***

The following funds had expenditures including other financing uses in excess of legally adopted appropriations for the year ended June 30, 2017:

	<b>Budget</b>	<b>Actual</b>
Housing Voucher Program Fund	\$5,903,179	\$5,994,003
Fleet, Equipment, Technology, Facilities and Other Capital Projects Fund	1,155,425	4,683,696
Ambulance Fund	1,461,126	1,620,851
Personnel and Benefits Fund	832,682	1,084,989
Police and Fire Supplemental Pay Fund	1,052,428	1,108,415

See Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.

The City did not budget for the expenditures or other financing sources related to capital lease transactions within the Fleet, Equipment, Technology, Facilities and Other Capital Projects Fund.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 3 - Deposits**

**Cash and Cash Equivalents**

*Custodial Credit Risk.* For deposits, this is the risk that in the event of a bank failure, the City's deposits will not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times.

As of June 30, 2017, \$754,681 of the City's deposits are insured by the FDIC, and \$22,737,916 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, 2017, the City had \$378,630 of deposits in excess of insured and/or collateralized amounts.

During fiscal year 2015, the City issued bond proceeds of \$15.07 million to fund specific public improvements. During the year ended June 30, 2017, the City had received all of the funds available to be drawn. Additionally, the City had \$401,000 in escrow balances for debt reserves and park maintenance.

As of December 31, 2016, Devou Properties, Inc. (a component unit of the City) had \$1,977,926 in cash in excess of insured limits.

**Investments**

Investments are made by the City as an agent for the City Employees' Retirement Fund and the Police and Firemen's Retirement Fund. The investments held by each fund at June 30, 2017 are summarized as follows:

City Employees' Retirement Fund

Investment Type	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 2 Years	3 to 5 Years	Beyond 5 Years
Cash and cash equivalents	\$ 147,833	\$ 147,833	\$ -	\$ -	\$ -
Bond mutual funds	212,893	212,893	-	-	-
Equity mutual funds	343,049	343,049	-	-	-
Other assets	1,806,235	1,660,080	-	-	146,155
	<u>\$ 2,510,010</u>	<u>\$ 2,363,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146,155</u>

Police and Firemen's Retirement Fund

Investment Type	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 2 Years	3 to 5 Years	Beyond 5 Years
Cash and cash equivalents	\$ 112,993	\$ 112,993	\$ -	\$ -	\$ -
Bond mutual funds	466,557	466,557	-	-	-
Equity mutual funds	752,341	752,341	-	-	-
Other assets	3,963,800	3,642,067	-	-	321,733
	<u>\$ 5,295,691</u>	<u>\$ 4,973,958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 321,733</u>

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 3 - Deposits - continued**

*Interest rate risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The pension systems' investment policies do not contain a formal policy relating to interest rate risk. No limit on maturities.

*Credit risk:* It is each pension systems' policy to limit its investments to those which have a volatility (beta) no greater than 1.20 versus the relevant Policy Benchmark. No policy regarding credit risk/ratings of bond investments.

*Custodial credit risk:* Custodial credit risk is the risk that in the event of a failure of a counter party, the pension systems will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. Investments are made by the City as an agent for the City Employees' Retirement Fund and the Police and Firemen's Retirement Fund. The City maintains investment accounts with brokerage institutions which hold the investments registered in the City's name. As of June 30, 2017, 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.

*Concentration of credit risk:* Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The pension systems' investment policy does not allow for an investment in global equity that is in excess of 75% of the portfolio's market value, nor does it allow for an investment in global fixed income in excess of 40% of the portfolio's market value, nor an investment in real assets in excess of 30% of the portfolio's market value, nor an investment in diversifying strategies in excess of 20% of the portfolio's market value. The following table includes the percentage of each investment type held by the pension systems at June 30, 2017:

Investment Type	City Employees'		Police and Firemen's	
	Fair Value	Percent Of Total	Fair Value	Percent Of Total
Cash and cash equivalents	\$ 147,833	6%	\$ 112,993	2%
Bond mutual funds	212,893	8%	466,557	9%
Equity mutual funds	343,049	14%	752,341	14%
Other assets	1,806,235	72%	3,963,800	75%
	<u>\$ 2,510,010</u>	<u>100%</u>	<u>\$ 5,295,691</u>	<u>100%</u>

*Fair Value Measured:* Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at June 30, 2017:

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 3 - Deposits - continued**

**City Employees'**

Investments	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Cash and Cash Equivalents</b>				
US Bank Account	\$ 131,820	\$ 131,820	\$ -	\$ -
Charles Schwab	16,013	16,013	-	-
<b>Total Cash and Cash Equivalents</b>	<b>147,833</b>	<b>147,833</b>	<b>-</b>	<b>-</b>
<b>Bond Mutual Funds</b>				
Doubleline Total Return	212,893	212,893	-	-
<b>Total Bond Mutual Funds</b>	<b>212,893</b>	<b>212,893</b>	<b>-</b>	<b>-</b>
<b>Equity Mutual Funds</b>				
Lazard Emrg Mkts Eqty	118,299	118,299	-	-
Johcm Intl Slct Fd	224,750	224,750	-	-
<b>Total Equity Mutual Funds</b>	<b>343,049</b>	<b>343,049</b>	<b>-</b>	<b>-</b>
<b>Other Assets</b>				
Ishares Interm Credit	168,512	168,512	-	-
Ishares MSCI EAFE Small	42,050	42,050	-	-
Ishares Russell 3000	1,232,379	1,232,379	-	-
Ishares Tips Bond ETF	55,694	55,694	-	-
Ishares 20 Pls Year	78,450	78,450	-	-
Ishares 3-7 year Trry	64,256	64,256	-	-
JP Morgan Chase Alerian	44,550	44,550	-	-
WisdownTree Dynamic INTL	120,344	120,344	-	-
<b>Total Other Assets</b>	<b>1,806,235</b>	<b>1,806,235</b>	<b>-</b>	<b>-</b>
<b>Total Investments</b>	<b>\$ 2,510,010</b>	<b>\$ 2,510,010</b>	<b>\$ -</b>	<b>\$ -</b>

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 3 - Deposits - continued**

Police and Firemen's Investments	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Cash and Cash Equivalents</b>				
US Bank Account	\$ 81,326	\$ 81,326	\$ -	\$ -
Charles Schwab	31,667	31,667	-	-
<b>Total Cash and Cash Equivalents</b>	<b>112,993</b>	<b>112,993</b>	<b>-</b>	<b>-</b>
<b>Bond Mutual Funds</b>				
Doubleline Total Return	466,557	466,557	-	-
<b>Total Bond Mutual Funds</b>	<b>466,557</b>	<b>466,557</b>	<b>-</b>	<b>-</b>
<b>Equity Mutual Funds</b>				
Lazard Emrg Mkts Eqty	261,166	261,166	-	-
Johcm Intl Slct Fd	491,175	491,175	-	-
<b>Total Equity Mutual Funds</b>	<b>752,341</b>	<b>752,341</b>	<b>-</b>	<b>-</b>
<b>Other Assets</b>				
Ishares Interm Credit	369,849	369,849	-	-
Ishares MSCI EAFE Small	92,370	92,370	-	-
Ishares Russell 3000	2,699,943	2,699,943	-	-
Ishares Tips Bond ETF	122,164	122,164	-	-
Ishares 20 Pls Year	172,290	172,290	-	-
Ishares 3-7 year Trry	142,353	142,353	-	-
JP Morgan Chase Alerian	99,762	99,762	-	-
WisdownTree Dynamic INTL	265,069	265,069	-	-
<b>Total Other Assets</b>	<b>3,963,800</b>	<b>3,963,800</b>	<b>-</b>	<b>-</b>
<b>Total Investments</b>	<b>\$ 5,295,691</b>	<b>\$ 5,295,691</b>	<b>\$ -</b>	<b>\$ -</b>

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 4 - Capital Assets and Depreciation**

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance End of Year</b>
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 14,800,827	\$ -	\$ -	\$ 14,800,827
Land improvements	2,072,096	-	-	2,072,096
Construction in progress	2,698,972	5,293,625	1,970,351	6,022,246
Total capital assets not being depreciated	<u>19,571,895</u>	<u>5,293,625</u>	<u>1,970,351</u>	<u>22,895,169</u>
Depreciable capital assets				
Buildings	23,384,792	932,016	103,877	24,212,931
Building improvements	15,036,627	85,072	-	15,121,699
Infrastructure	125,712,711	4,196,776	-	129,909,487
Machinery and equipment	4,644,193	419,825	74,990	4,989,028
Vehicles	12,366,531	4,506,203	1,540,942	15,331,792
Total depreciable capital assets	<u>181,144,854</u>	<u>10,139,892</u>	<u>1,719,809</u>	<u>189,564,937</u>
Less accumulated depreciation				
Buildings	10,235,046	559,822	38,202	10,756,666
Building improvements	10,479,967	690,073	-	11,170,040
Infrastructure	106,033,724	1,110,155	-	107,143,879
Machinery and equipment	3,783,483	568,213	74,990	4,276,706
Vehicles	11,136,391	815,398	1,540,942	10,410,847
Total accumulated depreciation	<u>141,668,611</u>	<u>3,743,661</u>	<u>1,654,134</u>	<u>143,758,138</u>
Total depreciable capital assets, net	<u>39,476,243</u>	<u>6,396,231</u>	<u>65,675</u>	<u>45,806,799</u>
Governmental Activities capital assets, net	<u>\$ 59,048,138</u>	<u>\$ 11,689,856</u>	<u>\$ 2,036,026</u>	<u>\$ 68,701,968</u>
<b>Component Unit</b>				
Devou Properties, Inc.				
Depreciable capital assets				
Property and equipment	\$ 232,978	\$ -	\$ -	\$ 232,978
Less accumulated depreciation	132,539	33,855	-	166,394
Component Unit property and equipment, net	<u>\$ 100,439</u>	<u>\$ (33,855)</u>	<u>\$ -</u>	<u>\$ 66,584</u>

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 4 - Capital Assets and Depreciation - continued**

Depreciation expense was charged to functions as follows:

Governmental Activities		
General government	\$	826,184
Police		583,495
Fire		295,868
Public improvements		1,763,014
Community development		<u>275,100</u>
Total Governmental Activities depreciation expense		<u><u>\$3,743,661</u></u>

**Note 5 - Interfund Activity**

Interfund transactions at June 30, 2017 consisted of the following due to/from other funds and transfers in/out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$ 1,785,675	\$ 1,916,676	\$ 2,089,588	\$ 5,041,548
Capital Improvement Fund	107,223	-	450,000	-
Nonmajor Governmental Funds	289,719	1,826,328	4,204,142	2,760,659
Internal Service Funds	<u>1,560,387</u>	<u>-</u>	<u>1,058,477</u>	<u>-</u>
	<u><u>\$ 3,743,004</u></u>	<u><u>\$ 3,743,004</u></u>	<u><u>\$ 7,802,207</u></u>	<u><u>\$ 7,802,207</u></u>

Due To/From Other Funds

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

Due From Fiduciary Activities/Due To Primary Government

As of June 30, 2017, the General Fund provided short-term loans of \$591,342 to the Employees' Retirement Fund and \$530,678 to the Police & Firemen's Retirement Fund.

Interfund Transfers

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

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 6 - Operating Lease**

The City leases various equipment and supplies under an operating lease that was entered into during January 2015. The lease calls for monthly payments of \$4,208 through December 2019. The City incurred approximately \$50,497 of expense under the lease agreement in the year ended June 30, 2017. Minimum lease payments due under the operating lease are as follows as of June 30, 2017:

Fiscal Year Ending June 30,		
2018	\$	50,497
2019		50,497
2020		25,248
	\$	<u>126,242</u>

**Note 7 - General Long-Term Debt**

Capital Lease Obligations

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

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

The following is an analysis of the capital assets acquired through capital leases as of June 30, 2017:

	Capital Assets
Buildings	\$ 9,254,680
Building improvements	4,814,321
Equipment	1,105,104
Land	7,028,833
Infrastructure	8,825,141
Vehicles	4,972,106
Total cost	36,000,185
Accumulated depreciation	(6,726,898)
Net Book Value	\$ 29,273,287

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 7 - General Long-Term Debt - continued**

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2017:

Fiscal Year Ending June 30,		
2018	\$	1,451,571
2019		1,417,432
2020		1,418,682
2021		1,420,523
2022		1,235,065
2023-2027		5,710,656
2028-2032		4,880,998
2033-2037		4,484,042
2038-2042		923,008
Total minimum lease payments		22,941,977
Less amounts representing interest		5,150,867
Present value of minimum lease payments	\$	17,791,110

Notes and Bonds

The following schedule summarizes outstanding long-term mortgage bonds and notes payable at June 30, 2017:

	Purpose	Interest Rate	Mature Date June 30,	Issued	Outstanding
<b>Mortgage Bonds</b>					
2003 Series	Refunding	2.00-4.50%	2018	\$ 4,996,000	\$ 446,000
KY Infrastructure Auth.	Rainwater project	2.00%	2030	1,197,390	411,534
Recovery Zone Economic Dev	River Center	4.90-7.00%	2030	2,650,000	-
2014 Pension	Pension refunding	2.00-4.00%	2030	10,960,000	9,720,000
Series 2016	Refunding	1.40-3.00%	2031	9,185,000	8,445,000
Series 2014	Capital Improvements	3.00-4.00%	2034	18,635,000	17,610,000
2015 Pension	Pension refunding	3.00-4.50%	2035	4,000,000	3,700,000

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

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 7 - General Long-Term Debt - continued**

Assuming no issues are called prior to maturity, the minimum obligations of the City at June 30, 2017 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,927,838	\$ 1,228,053	\$ 4,155,891
2019	2,992,378	1,168,109	4,160,487
2020	2,627,928	1,096,479	3,724,407
2021	2,688,490	1,036,257	3,724,747
2022	2,764,062	1,144,235	3,908,297
2023-2027	12,409,312	3,650,202	16,059,514
2028-2032	10,467,526	1,790,003	12,257,529
2033-2036	3,455,000	1,048,750	4,503,750
	<u>\$ 40,332,534</u>	<u>\$ 12,162,088</u>	<u>\$ 52,494,622</u>

Conduit Debt Obligations

The City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, state, nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2017, there was \$60.9 million outstanding in Industrial Revenue Bonds.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 7 - General Long-Term Debt - continued**

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

Debt Issue	Beginning Balance	Issued	Redeemed	Ending Balance	Amounts Due Within One Year
Mortgage bonds and notes:					
2003 Refunding	\$ 875,000	\$ -	\$ (429,000)	\$ 446,000	\$ 446,000
Series 2014	17,925,000	-	(315,000)	17,610,000	530,000
Series 2016	-	9,185,000	(740,000)	8,445,000	1,130,000
2014 Pension	10,360,000	-	(640,000)	9,720,000	640,000
2015 Pension	3,850,000	-	(150,000)	3,700,000	155,000
KIA Rainwater Harvest	437,844	-	(26,310)	411,534	26,838
Recovery Zone Bonds	2,285,000	-	(2,285,000)	-	-
Premium on issuance	219,161	-	(11,582)	207,579	-
Total mortgage bonds and notes	<u>35,952,005</u>	<u>9,185,000</u>	<u>(4,596,892)</u>	<u>40,540,113</u>	<u>2,927,838</u>
Capital lease obligations:					
Infrastructure/equipment	21,647,721	3,791,165	(7,647,776)	17,791,110	1,005,139
Net pension liability:					
Kentucky CERS - Nonhazardous	10,425,610	1,410,891	-	11,836,501	-
Kentucky CERS - Hazardous	44,623,090	3,612,513	-	48,235,603	-
Employees' Retirement	3,503,788	743,013	(2,089,228)	2,157,573	-
Police & Firemen's Retirement	10,218,538	2,010,408	(5,584,337)	6,644,609	-
Total net pension liability	<u>68,771,026</u>	<u>7,776,825</u>	<u>(7,673,565)</u>	<u>68,874,286</u>	<u>-</u>
Compensated absences	<u>1,450,623</u>	<u>1,456,969</u>	<u>(1,450,623)</u>	<u>1,456,969</u>	<u>1,456,969</u>
Total Long-Term Liabilities	<u>\$ 127,821,375</u>	<u>\$ 22,209,959</u>	<u>\$ (21,368,856)</u>	<u>\$ 128,662,478</u>	<u>\$ 5,389,946</u>

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

Current Refunding

On July 20, 2016, the City issued \$9,185,000 of Taxable General Obligation Bonds with interest rates ranging from 1.4% to 3.0% for the purpose of refunding the 2010 Recovery Zone Bonds, the 2002 Fort Mitchell Pool Parking Facility Capital Lease and the Bank of Kentucky 2009 501 Main Capital Lease.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 8 - Risk Management**

The City is exposed to various risks of 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 \$2,568,280 at June 30, 2017. Changes in the Liability Self Insurance Fund's claims liability amount during the fiscal years ended June 30, 2017 and 2016 were as follows:

	<b><u>2017</u></b>	<b><u>2016</u></b>
Claims liability at July 1	\$ 2,568,280	\$ 1,224,247
Change in claims and estimates	62,072	1,395,225
Claims payments	<u>(62,072)</u>	<u>(51,192)</u>
Claims liability at June 30	<b><u>\$ 2,568,280</u></b>	<b><u>\$ 2,568,280</u></b>

The City has also established a Medical Self Insurance Fund. Employees may elect to participate in this program or certain other medical insurance programs offered by the City. Under this program the first \$125,000 of a participants' medical claims are payable by the Medical Self Insurance Fund. The City purchases insurance for claims in excess of coverage provided by the fund. All funds of the City participate in the program and make payments to the Medical Self Insurance Fund based on historical estimates of the amounts needed to pay prior and current year claims. The claims liability reported at June 30, 2017 is \$1,499,976. Of that amount, \$1,499,976 represents current liabilities. Changes in the Medical Self Insurance Fund's claims liability amount during the fiscal years ended June 30, 2017 and 2016 were as follows:

	<b><u>2017</u></b>	<b><u>2016</u></b>
Claims liability at July 1	\$ 1,627,096	\$ 1,683,817
Change in claims and estimates	4,115,497	4,107,736
Claims payments	<u>(4,242,617)</u>	<u>(4,164,457)</u>
Claims liability at June 30	<b><u>\$ 1,499,976</u></b>	<b><u>\$ 1,627,096</u></b>

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.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans**

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

**Summary of Significant Accounting Policies**

**Employees' Retirement Plan and Police and Firemen's Retirement Plan**

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

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

**County Employees Retirement Systems (CERS)**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the Retirement System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The Retirement System reports investments at fair value.

**A. Employees' Retirement Plan**

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

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

Plan members eligible for an occupational disability retirement shall receive an annuity equal to 60% of an average of their three highest salary years. Plan members eligible for a non-occupational disability retirement

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**A. Employees' Retirement Plan - continued**

are entitled to an annuity equal to 2.5% of their average salary, subject to a minimum payment of 25% of such average salary, and a maximum payment of 65% of their average salary, if they have at least 10 years of service.

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

Cost-of-living adjustments (COLA) are provided at the discretion of the Board of Trustees. Benefits are provided and may be amended by City ordinance. There was not a COLA for 2017.

*Contributions.* As of June 30, 2017, there are 35 retirees and beneficiaries currently receiving benefits. The City is required to contribute at an actuarially determined rate. Contribution requirements of the City are established and may be amended by City ordinance. Administrative costs are financed through investment earnings. The plan is closed to new entrants and doesn't have any active plan members.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	30%	5.5%
Equity funds	70%	5.5%
Real assets	0%	0.0%
Low volatility	0%	0.0%
Total	<u>100%</u>	

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**A. Employees' Retirement Plan - continued**

*Concentrations.* The Employees' Retirement Plan investments concentration as of June 30, 2017:

Investment	Concentration
Cash and money markets	6%
Bond mutual funds	8%
Equity mutual funds	14%
Other assets	72%
	100%

*Rate of Return.* For the year ended June 30, 2017, the annual money-weighted rate of return on the plan investments, net of pension plan investment expense was (5.7%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Net Pension Liability.* The Employees' Retirement net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The components of the net pension liability of the City at June 30, 2017, were as follows:

Total pension liability	\$ 4,127,151
Employee's Retirement Plan fiduciary net position	(1,969,578)
City's net pension liability	\$ 2,157,573
Employees' Retirement Plan net position as a percentage of total pension liability	47.72%

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return                      5.5%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Total Mortality Table projected generationally using scale MP-2016.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 – June 30, 2017.

*Discount rate.* The discount rate used to measure the total pension liability was 5.5 percent. The projection of cash flows used to determine the discount rate assumed the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Fiduciary Net Position is now forecast to be solvent based on the City's revised contribution policy. The discount rate is therefore equal to the expected return on assets as provided by the plan's investment managers.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**A. Employees' Retirement Plan - continued**

*Changes in Employees' Net Pension Liability.* Changes in the Employees' Retirement net pension liability for the year ended June 30, 2017 were as follows:

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balance, June 30, 2016	\$ 5,483,666	\$ 1,979,878	\$ 3,503,788
Changes for the year:			
Interest	155,134	-	155,134
Benefit changes	80,924	-	80,924
Difference between expected and actual experience	(54,286)	-	(54,286)
Changes of assumptions	(1,049,356)	-	(1,049,356)
Benefit payments	(488,931)	-	(488,931)
Contributions - employer	-	195,000	(195,000)
Net investment income	-	301,655	(301,655)
Benefit payments	-	(488,931)	488,931
Administrative expense	-	(18,024)	18,024
Net changes	<u>(1,356,515)</u>	<u>(10,300)</u>	<u>(1,346,215)</u>
Balance, June 30, 2017	<u>\$ 4,127,151</u>	<u>\$ 1,969,578</u>	<u>\$ 2,157,573</u>

	<b>Deferred Outflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	<u>\$ 90,840</u>
Total	<u>\$ 90,840</u>

Amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 69,860
2019	69,862
2020	591
2021	(49,473)
Thereafter	-

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**A. Employees' Retirement Plan - continued**

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the City, calculated using the discount rate of 5.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5%) or 1-percentage-point higher (6.5%) than the current rate:

	Discount Rate	Net Pension Liability
1% decrease	4.50%	\$ 2,466,487
Current discount rate	5.50%	\$ 2,157,573
1% increase	6.50%	\$ 1,886,430

*Pension Revenue/Expense.* For the year ended June 30, 2017, the City recognized pension benefit of \$833,986.

**B. Police and Firemen's Retirement Plan**

*Plan Description.* The Police and Firemen's Retirement Plan is a single-employer defined benefit pension plan that covers all retired police and firemen who were receiving benefits prior to August 1, 1989. The plan is administered by the Board of Trustees, which consists of five members: the Mayor, the City Manager, the Finance Director, and two retired members of the police and fire department.

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

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

Beneficiaries are entitled to non-occupational death benefits for employees who had 3 years of service and died from causes other than in the performance of duty. Benefits include 1.5% of average salary for each year of service plus total cost-of-living (COL) increases retired members may have received in their annuity for beneficiaries who are at least age 45. If the beneficiary becomes totally disabled before age 45 or has a minor child or children, payments will begin immediately. If there are minor children under the age of 18, the annuity percentage credit shall be increased by a factor of 0.50 on account of the first child and by a factor of 0.25 on account of each additional child, subject to a maximum combined payment of 75% of average salary. If the pensioner is not survived by a widow and there are minor children a benefit of 50% of average salary plus total COL increases for the first minor child, plus 15% additional for the second minor child, plus 10% additional if there are 3 or more minor children, to a maximum payment of 75% of average salary (excluding COL). These benefits will be payable until age 18 or, in the case of a full-time student, until age 23. In the situation of an occupational death, monthly benefits are equal to 50% of the last rate of salary plus total COL increases, payable to the survivor until they die or remarry. If there are minor children under age 18, an additional 25% shall be paid until the last child reaches age 18, to a combined maximum benefit of

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**B. Police and Firemen's Retirement Plan - continued**

75% of the final rate of salary (excluding COL). If the pensioner is not survived by a widow and there are minor children, a benefit of 50% of average salary plus total COL increases for the first minor child, plus 15% additional for the second minor child, plus 10% additional if there are 3 or more minor children, to a maximum payment of 75% of average salary (excluding COL). These benefits will be payable until age 18 or, in the case of a full-time student, until age 23. If neither a widow nor minor children survive the member, each dependent parent shall be entitled to an annuity equal to 25% of the member's last rate of salary.

Cost-of-living adjustments (COLA) are provided at the discretion of the Board of Trustees. Benefits are provided and may be amended by City ordinance. There was no COLA for 2017.

*Contributions.* As of June 30, 2017, there are 66 retirees and beneficiaries currently receiving benefits. The City is required to contribute at an actuarially determined rate. Contribution requirements of the City are established under KRS 95.868. Administrative costs are financed through investment earnings. The plan is closed to new entrants and doesn't have any active plan members.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	30%	5.5%
Equity funds	70%	5.5%
Real assets	0%	0.0%
Low volatility	0%	0.0%
Total	<u>100%</u>	

*Concentrations.* The Police and Firemen's Retirement Plan investments concentration as of June 30, 2017:

<u>Investment</u>	<u>Concentration</u>
Cash and money markets	2%
Bond mutual funds	9%
Equity mutual funds	14%
Other assets	75%
	<u>100%</u>

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**B. Police and Firemen’s Retirement Plan - continued**

*Rate of Return.* For the year ended June 30, 2017, the annual money-weighted rate of return on the plan investments, net of pension plan investment expense was (10.9%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Net Pension Liability.* The Police and Firemen’s Retirement net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The components of the net pension liability of the City at June 30, 2017, were as follows:

Total pension liability	\$ 11,446,749
Police and Firemen's Retirement Plan fiduciary net position	<u>(4,802,140)</u>
City's net pension liability	<u>\$ 6,644,609</u>
Police and Firemen's Retirement Plan net position as a percentage of total pension liability	41.95%

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return 5.5%, net of pension plan investment expense, including inflation.

Mortality rates were based on the RP-2014 Total Mortality Table projected generationally using scale MP-2016.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 – June 30, 2017.

*Discount rate.* The discount rate used to measure the total pension liability was 5.5 percent. The projection of cash flows used to determine the discount rate assumed the City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Fiduciary Net Position is now forecast to be solvent based on the City’s revised contribution policy. The discount rate is therefore equal to the expected return on assets as provided by the plan’s investment managers.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**B. Police and Firemen's Retirement Plan - continued**

*Changes in Police and Firemen's Net Pension Liability.* Changes in the Police and Firemen's net pension liability for the year ended June 30, 2017 were as follows:

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balance, June 30, 2016	\$ 15,210,862	\$ 4,992,324	\$ 10,218,538
Changes for the year:			
Service cost	-	-	-
Interest	385,334	-	385,334
Benefit changes	146,022	-	146,022
Difference between expected and actual experience	123,207	-	123,207
Changes of assumptions	(3,069,911)	-	(3,069,911)
Benefit payments	(1,348,765)	-	(1,348,765)
Contributions - employer	-	573,000	(573,000)
Net investment income	-	592,661	(592,661)
Benefit payments	-	(1,348,765)	1,348,765
Administrative expense	-	(7,080)	7,080
Net changes	<u>(3,764,113)</u>	<u>(190,184)</u>	<u>(3,573,929)</u>
Balance, June 30, 2017	<u>\$ 11,446,749</u>	<u>\$ 4,802,140</u>	<u>\$ 6,644,609</u>

	<b>Deferred Outflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	<u>\$ 256,149</u>
Total	<u>\$ 256,149</u>

Amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 169,704
2019	169,704
2020	10,857
2021	(94,116)
Thereafter	-

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**B. Police and Firemen’s Retirement Plan - continued**

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the City, calculated using the discount rate of 5.5 %, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5%) or 1-percentage-point higher (6.5%) than the current rate:

	Discount Rate	Net Pension Liability
1% decrease	4.50%	\$ 7,492,311
Current discount rate	5.50%	\$ 6,644,609
1% increase	6.50%	\$ 5,900,809

*Pension Revenue/Expense.* For the year ended June 30, 2017, the City recognized pension benefit of \$2,360,650.

**C. County Employees Retirement System (CERS)**

City employees 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 (KRS) 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.

*General Information about the Pension Plan*

*Plan Description* - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous positions of each county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5%, provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

*Non-hazardous Benefits* – For members who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 5-high creditable compensation years with a minimum of 48 months and a minimum of five fiscal years. Final compensation is determined by dividing the total salary earned during the 5-high years by the number of months worked, then multiplying by twelve. Non-hazardous members, age 65 or older, or with 27 or more years of service are eligible to retire and receive unreduced benefits. Any non-hazardous member, age 55, with a minimum of five years of service may retire with a reduction in benefits.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**C. County Employees Retirement System (CERS) - continued**

For non-hazardous members who began contributing to CERS on or after September 1, 2008, any member age 57 or older, may retire with no reduction in benefits if the member's age and years of service equal 87. In addition, a member, age 65, with at least 60 months of service may retire with no reduction in benefits. A member, age 60 or older, with at least 120 months of service credit may retire at any time with a reduction of benefits.

*Hazardous Benefits* – For members who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 3-high creditable compensation years with a minimum of 24 months and a minimum of three fiscal years. Final compensation is determined by dividing the total salary earned during the 3-high years by the number of months worked, then multiplying by twelve. Hazardous members, age 55 or older, or with 20 or more years of service are eligible to retire and receive unreduced benefits. Any hazardous member, age 50, with a minimum of fifteen years of service may retire with a reduction in benefits.

For hazardous members who began contributing to CERS on or after September 1, 2008, any member age 60 or older with 60 months of service or a member with 25 years of service, may retire with no reduction in benefits. A member, age 50 or older, with at least 180 months of service credit may retire at any time with a reduction of benefits.

*Non-hazardous Contributions* - For the year ended June 30, 2017, all plan members who began participating before September 1, 2008, 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 78.545(33), 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, 2017, participating employers contributed 18.68% of each employee's creditable compensation, which was the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative regulation 102 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to participate to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**C. County Employees Retirement System (CERS) - continued**

Contributions to the non-hazardous pension plan from the City were \$1,108,364 for the year ended June 30, 2017. These contributions will be allocated to both the CERS pension fund and the CERS insurance fund.

*Hazardous Contributions* - For the year ended June 30, 2017, all plan members who began participating before September 1, 2008, were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), 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, 2017, participating employers contributed 31.06% of each employee's creditable compensation, which was the actuarially determined rate set by the Board. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative regulation 102 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to participate to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute 8% of their annual creditable compensation and 1% to the health insurance fund, which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Contributions to the hazardous pension plan from the City were \$4,999,500 for the year ended June 30, 2017. These contributions will be allocated to both the CERS pension fund and the CERS insurance fund.

*Insurance Benefits*

*Plan Description* – The Kentucky Retirement Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KERS, CERS and SPRS. The Fund pays a prescribed contribution for the whole or partial payment of required premiums to purchase hospital and medical insurance. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty.

*Insurance Benefits* – For members participating prior to July 1, 2003, the amount of contribution paid for hospital and medical insurance is based on the years of service and respective percentages of the maximum contribution as follows:

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**C. County Employees Retirement System (CERS) - continued**

Years of Service	% Paid by Insurance Fund
20 or More	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on, or after, July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of the Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

*Insurance Contributions* – In prior years, the employer's required medical insurance contribution rate was increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve a target rate for the full entry age normal funding within 20 years.

The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

*Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2017, the City reported a liability of \$11,836,501 for its proportionate share of the net pension liability for non-hazardous and \$48,235,603 for hazardous classifications. The City's net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion decreased 0.002 percent from 0.242 percent at June 30, 2015 to 0.24 percent for non-hazardous and decreased 0.1 percent from 2.91 percent at June 30, 2015 to 2.81 percent for hazardous classifications.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**C. County Employees Retirement System (CERS) - continued**

For the year ended June 30, 2017, the City recognized pension expense of \$1,420,447 for non-hazardous and \$5,220,129 for hazardous classifications. At June 30, 2017, the City reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	NON-HAZARDOUS		HAZARDOUS		TOTAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
City contributions subsequent to the measurement date	\$ 906,312	\$ -	\$ 3,294,056	\$ -	\$ 4,200,368	\$ -
Proportionate share of deferred outflows at measurement date	1,791,462	-	8,004,740	-	9,796,202	-
Proportionate share of deferred inflows at measurement date	-	311,138	-	899,277	-	1,210,415
	<u>\$ 2,697,774</u>	<u>\$ 311,138</u>	<u>\$ 11,298,796</u>	<u>\$ 899,277</u>	<u>\$ 13,996,570</u>	<u>\$ 1,210,415</u>

\$4,200,368 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows and deferred outflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Hazardous	Non-Hazardous	Total
2018	\$ 1,737,916	\$ 473,175	\$ 2,211,091
2019	2,796,253	335,805	3,132,058
2020	1,656,745	424,133	2,080,878
2021	914,549	247,211	1,161,760
	<u>\$ 7,105,463</u>	<u>\$ 1,480,324</u>	<u>\$ 8,585,787</u>

*Actuarial Assumptions* – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	4.0 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation
Actuarial Cost Method	Entry Age Normal

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**C. County Employees Retirement System (CERS) - continued**

long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return and net of investment expense) were developed by the investment consultant for each major asset class. These ranges were combined to produce long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Nominal Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash	2%	-0.25%
Total	<u>100%</u>	

*Discount Rate* – The discount rate used to measure the total pension liability for the system was 7.5% for both, nonhazardous and hazardous. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* – The following presents the net pension liability calculated using the discount rate of percent, as well as what the systems' net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate for non-hazardous and (6.5%) or one percentage point higher (8.5%) than the current rate for hazardous:

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 9 - Employee Retirement Plans - continued**

**C. County Employees Retirement System (CERS) - continued**

<b>CERS</b>	<b>1% Decrease 6.50%</b>	<b>Discount Rate 7.50%</b>	<b>1% Increase 8.50%</b>
Non-hazardous	\$ 14,750,200	\$ 11,836,501	\$ 9,338,886
Hazardous	\$ 60,597,991	\$ 48,235,603	\$ 38,038,781

*Pension Plan Fiduciary Net Position* – Detailed information about the plan’s fiduciary net position is available in the separately issued CERS financial report.

*Payable to the Pension Plan* – The total outstanding payable as of June 30, 2017 is \$1,198,641. The total hazardous payable is \$615,612, total non-hazardous is \$106,172, and total invoices are \$476,857.

**Note 10 - Fund Balances**

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

<u>Fund Balances</u>	<u>General</u>	<u>Pension Obligation 2004 Fund</u>	<u>Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><i>Nonspendable</i></b>					
Prepaid expenses	\$ 157,023	\$ -	\$ -	\$ -	\$ 157,023
<b><i>Restricted for</i></b>					
Capital projects	-	-	4,376,137	-	4,376,137
Debt service	-	401,000	-	-	401,000
HUD programs	-	-	-	651,007	651,007
Other grant programs	-	-	-	426,695	426,695
<b><i>Total Restricted</i></b>	<u>-</u>	<u>401,000</u>	<u>4,376,137</u>	<u>1,077,702</u>	<u>5,854,839</u>
<b><i>Committed to</i></b>					
Fiscal Stability Ordinance	3,761,124	-	-	-	3,761,124
Infrastructure	-	-	-	488,637	488,637
Waste	-	-	-	394,460	394,460
Ambulance	-	-	-	2,142	2,142
Fleet, Equipment & Technology	-	-	-	266,621	266,621
CEDA	-	-	-	446,665	446,665
Capital Reserve	-	-	-	700,000	700,000
One Stop Shop	-	-	-	657,320	657,320
<b><i>Total Committed</i></b>	<u>3,761,124</u>	<u>-</u>	<u>-</u>	<u>2,955,845</u>	<u>6,716,969</u>
<b><i>Unassigned</i></b>	<u>9,035,883</u>	<u>-</u>	<u>-</u>	<u>(437,055)</u>	<u>8,598,828</u>
<b><i>Total Fund Balance</i></b>	<u>\$ 12,954,030</u>	<u>\$ 401,000</u>	<u>\$ 4,376,137</u>	<u>\$ 3,596,492</u>	<u>\$ 21,327,659</u>

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 10 - Fund Balances - continued**

At June 30, 2017, the following funds had a deficit fund balance:

HOME Consortium	\$ 128,032
Devou Park Master Plan	\$ 157,576
Police & Fire Sup Pay	\$ 151,447

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

The City established the Fiscal Stability Ordinance, O-11-16 during the fiscal year ended June 30, 2016. This ordinance requires the establishment of a Minimum General Fund Unreserved Fund and commits carryover funds at each fiscal year end for various purposes. The plan specifies that the Minimum General Fund Unreserved Fund should be equivalent to at least two months of budgeted operating revenues, as recommended by the Government Finance Officers Association (GFOA), which was determined to be \$7,835,675. The Plan calls for the City to make annual contributions to the unreserved fund equal to a minimum of ten percent over the previous fiscal year's progress toward the required minimum balance. As of June 30, 2017, the balance in the Minimum General Fund Unreserved Fund is \$3,761,124. The goal of this legislation is to stabilize the City's revenue and expenditure cycles, mitigating financial risks and improving the City's credit rating. It also follows the three themes outlined by the City: Responsibility, Sustainability, and Investment.

**Note 11 - Contingencies**

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

Amounts grantor agencies pay to the City are subject to audit and adjustments by the grantor, principally the federal government. The grantor may require refunding by the City for any disallowed costs. Management cannot determine amounts grantors may disallow in future periods. However, based on prior experience, management believes any refunds would be immaterial to its financial statement as of June 30, 2017.

**Note 12 - Tax Abatements**

The City is authorized by Kentucky Revised Statutes and Chapter 116 of the Covington Code of Ordinances to enter into payroll tax abatement agreements to provide incentives for the creation or retention of businesses in the City; for the rehabilitation of vacant properties for retail, office, or commercial use; and to establish uniform timelines for the disbursement of job development incentive funds. The City Commission determines the percentage amount and duration of the tax incentives. The amount of the abatement are refunded to businesses each year once they have successfully applied for the incentive and met all the requirements to participate in the incentive.

City of Covington, Kentucky  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 12 - Tax Abatements - continued**

For the ended June 30, 2017, the City abated payroll taxes totaling approximately \$423,758 under this program, including the following tax abatements agreements that each exceeded 10 percent of the total, which is the percentage the City considers to be material for purposes of individual disclosure:

<u>Type of Business</u>	<u>Purpose</u>	<u>Percent Abated</u>	<u>Amount Abated</u>
RAH Reality LLC / Fruit Storage Inc.	Vacant Property Rehabilitation Incentive	50% to 75%	\$ 43,478
TIER 1 Performance	Covington Jobs Development Retention Incentive	40%	\$ 88,696
Fidelity Brokerage Services	Covington Jobs Development Retention Incentive	40%	\$ 250,992

The City is authorized by Kentucky Revised Statutes to enter into property tax abatement agreements for the purpose of attracting new development. Developers can acquire land located in Covington for the purpose of development. The City can agree to abatement of certain real estate ad valorem taxes based upon specific provisions and the developer can agree to make Payments in Lieu of Taxes (PILOT) and enter into an agreement in Lieu of Taxes. The City Commission determines the percentage amount and duration of the tax incentive. The amount of the abatement is automatically deducted from the property owner's PILOT bill.

For the year ended June 30, 2017, the City abated Property taxes totaling \$90,236 under this program, which consisted of the following tax abatement agreements:

<u>Type of Business</u>	<u>Purpose</u>	<u>Percent Abated</u>	<u>Amount Abated</u>
Ascent at Roebing's Bridge Condominiums	Built Luxury Condominiums	13%	\$ 76,151
Towne Center City LLC	Built Luxury Apartments	40%	\$ 88,696

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**Required  
Supplementary  
Information**

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**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures, and Changes in

Fund Balance - Budget and Actual -

General Fund

Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Taxes:				
Real property	\$ 7,159,472	\$ 7,326,549	\$ 7,051,068	\$ (275,481)
Franchise	2,025,888	2,140,759	2,110,822	(29,937)
Insurance premium	6,679,186	7,134,530	7,909,903	775,373
Licenses and permits:				
Payroll license fees	23,579,476	24,615,218	25,097,302	482,084
Net profits license fees	3,073,240	3,578,371	3,325,037	(253,334)
Liquor and beer licenses	60,000	60,000	76,195	16,195
Other licenses and permits	157,270	157,270	176,170	18,900
Intergovernmental	910,000	910,000	1,236,954	326,954
Fines and forfeitures	312,166	286,805	309,267	22,462
Charges for services:				
Waste fees	153,136	129,386	1,022,886	893,500
Parking	1,791,712	1,894,705	2,094,864	200,159
Squad runs	-	1,433,875	11,029	(1,422,846)
Rental property	300,000	300,000	527,686	227,686
Other	38,885	38,885	48,012	9,127
Interest	195,320	195,320	188,823	(6,497)
Miscellaneous	<u>322,206</u>	<u>322,206</u>	<u>363,853</u>	<u>41,647</u>
Total revenues	<u>\$46,757,957</u>	<u>\$50,523,879</u>	<u>\$51,549,871</u>	<u>\$ 1,025,992</u>

**Expenditures:**

Current:

General government:

Administration department:

Payroll	\$ 1,325,956	\$ 1,357,083	\$ 1,554,103	\$ (197,020)
Contractual services	1,331,176	1,564,869	1,477,948	86,921
Materials and supplies	22,250	17,657	13,528	4,129
Miscellaneous	<u>59,848</u>	<u>34,921</u>	<u>33,718</u>	<u>1,203</u>
Total administrative	<u>\$ 2,739,230</u>	<u>\$ 2,974,530</u>	<u>\$ 3,079,297</u>	<u>\$ (104,767)</u>

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures, and Changes in

Fund Balance - Budget and Actual -

General Fund - *continued*

Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><i>Expenditures - continued</i></b>				
Current - <i>continued</i> :				
General government - <i>continued</i> :				
Legal department:				
Payroll	\$ 754,285	\$ 754,285	\$ 711,597	\$ 42,688
Contractual services	90,732	90,732	52,038	38,694
Materials and supplies	7,300	7,300	1,744	5,556
Miscellaneous	12,860	12,860	8,712	4,148
Total legal	<u>865,177</u>	<u>865,177</u>	<u>774,091</u>	<u>91,086</u>
Finance department:				
Payroll	890,247	890,247	800,279	89,968
Contractual services	456,508	457,503	381,831	75,672
Materials and supplies	35,700	27,100	27,571	(471)
Miscellaneous	3,030	10,635	10,533	102
Total finance	<u>1,385,485</u>	<u>1,385,485</u>	<u>1,220,214</u>	<u>165,271</u>
Total general government	<u>4,989,892</u>	<u>5,225,192</u>	<u>5,073,602</u>	<u>151,590</u>
Police:				
Payroll	12,303,091	12,380,941	13,014,703	(633,762)
Contractual services	470,563	512,483	250,823	261,660
Materials and supplies	484,619	392,079	345,602	46,477
Miscellaneous	18,000	18,000	9,683	8,317
Total police	<u>13,276,273</u>	<u>13,303,503</u>	<u>13,620,811</u>	<u>(317,308)</u>
Fire:				
Payroll	11,536,702	12,068,346	11,995,323	73,023
Contractual services	423,996	433,652	410,105	23,547
Materials and supplies	353,200	354,001	339,218	14,783
Miscellaneous	3,600	4,499	4,426	73
Total fire	<u>\$12,317,498</u>	<u>\$12,860,498</u>	<u>\$12,749,072</u>	<u>\$ 111,426</u>

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures, and Changes in

Fund Balance - Budget and Actual -

General Fund - *continued*

Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures - continued</b>				
Current - <i>continued</i> :				
Public improvement:				
Payroll	\$ 4,362,713	\$ 4,523,391	\$ 3,923,694	\$ 599,697
Contractual services	611,232	764,382	345,882	418,500
Materials and supplies	1,544,008	1,368,616	856,769	511,847
Miscellaneous	11,900	5,900	3,966	1,934
Total public improvement	<u>6,529,853</u>	<u>6,662,289</u>	<u>5,130,311</u>	<u>1,531,978</u>
Community development:				
Payroll	1,181,740	1,086,136	1,084,828	1,308
Contractual services	682,892	1,058,722	1,007,251	51,471
Materials and supplies	53,586	50,429	34,670	15,759
Miscellaneous	5,295	5,295	1,295	4,000
Total community development	<u>1,923,513</u>	<u>2,200,582</u>	<u>2,128,044</u>	<u>72,538</u>
Parking garages:				
Contractual services	<u>885,160</u>	<u>885,160</u>	<u>868,353</u>	<u>16,807</u>
Total parking garages	<u>885,160</u>	<u>885,160</u>	<u>868,353</u>	<u>16,807</u>
Capital outlay:				
General government	-	-	244,399	(244,399)
Total capital outlay	<u>-</u>	<u>-</u>	<u>244,399</u>	<u>(244,399)</u>
Debt service:				
Principal	3,007,315	3,007,315	12,029,825	(9,022,510)
Interest	2,164,861	1,914,861	1,765,335	149,526
Bond Issuance Costs	-	-	252,629	(252,629)
Total debt service	<u>5,172,176</u>	<u>4,922,176</u>	<u>14,047,789</u>	<u>(9,125,613)</u>
Total expenditures	<u>\$45,094,365</u>	<u>\$46,059,400</u>	<u>\$53,862,381</u>	<u>\$ (7,875,519)</u>

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures, and Changes in

Fund Balance - Budget and Actual -

General Fund - *concluded*

Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><i>Expenditures - concluded</i></b>				
Excess (deficiency) of revenues over (under) expenditures	\$ 1,663,592	\$ 4,464,479	\$ (2,312,510)	\$(6,776,989)
<b><i>Other Financing Sources (Uses)</i></b>				
Transfers in	1,478,604	568,782	2,089,588	1,520,806
Proceeds on sale of assets	-	-	141,591	141,591
Issuance of refunding bonds	-	-	9,185,000	9,185,000
Transfers out	<u>(3,350,488)</u>	<u>(3,688,057)</u>	<u>(5,041,548)</u>	<u>(1,353,491)</u>
Total other financing sources (uses)	<u>(1,871,884)</u>	<u>(3,119,275)</u>	<u>6,374,631</u>	<u>9,493,906</u>
Special item	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(208,292)	1,345,204	4,062,121	<u>\$ 2,716,917</u>
Fund balance, beginning of year	<u>8,891,909</u>	<u>8,891,909</u>	<u>8,891,909</u>	
Fund balance, end of year	<u>\$ 8,683,617</u>	<u>\$10,237,113</u>	<u>\$12,954,030</u>	

**CITY OF COVINGTON, KENTUCKY**  
 Required Supplementary Information -  
 Employees' Retirement Plan  
 Fiscal Years 2017, 2016, 2015 and 2014 <sup>(1)</sup>

	2017	2016	2015	2014
<b>Schedule of City Contributions</b>				
Actuarially determined contribution	\$ 203,351	\$ 183,493	\$ 183,493	\$ 138,459
Contributions in relation to the actuarially determined contribution	<u>195,000</u>	<u>127,078</u>	<u>127,078</u>	<u>138,459</u>
Contribution deficiency (excess)	<u>\$ 8,351</u>	<u>\$ 56,415</u>	<u>\$ 56,415</u>	<u>\$ -</u>
Covered-employee payroll	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
Actual contributions as a percentage of covered-employee payroll	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
<b>Schedule of Changes in the Net Position Liability and Related Ratios</b>				
Total pension liability				
Interest	\$ 155,134	\$ 264,726	\$ 330,480	\$ 342,966
Benefit changes	80,924	-	-	64,980
Difference between expected and actual experience	(54,286)	(444,003)	(185,296)	(20,562)
Changes of assumptions	(1,049,356)	875,460	1,028,917	24,786
Benefit payments	<u>(488,931)</u>	<u>(503,390)</u>	<u>(568,978)</u>	<u>(587,963)</u>
Net change in total pension liability	(1,356,515)	192,793	605,123	(175,793)
Total pension liability - beginning	<u>5,483,666</u>	<u>5,290,873</u>	<u>4,685,750</u>	<u>4,861,543</u>
Total pension liability - ending	<u>\$ 4,127,151</u>	<u>\$ 5,483,666</u>	<u>\$ 5,290,873</u>	<u>\$ 4,685,750</u>
Plan fiduciary net position				
Contributions-employer	\$ 195,000	\$ 127,078	\$ 127,078	\$ 138,459
Other	-	-	-	67
Net investment income	301,655	(129,228)	(132,623)	474,728
Benefit payments	(488,931)	(503,390)	(568,978)	(623,756)
Administrative expense	<u>(18,024)</u>	<u>(6,800)</u>	<u>-</u>	<u>(12,221)</u>
Net change in plan fiduciary net position	(10,300)	(512,340)	(574,523)	(22,723)
Plan fiduciary net position - beginning	<u>1,979,878</u>	<u>2,492,218</u>	<u>3,066,741</u>	<u>3,089,464</u>
Plan fiduciary net position - ending	<u>\$ 1,969,578</u>	<u>\$ 1,979,878</u>	<u>\$ 2,492,218</u>	<u>\$ 3,066,741</u>
Net pension liability	<u>\$ 2,157,573</u>	<u>\$ 3,503,788</u>	<u>\$ 2,798,655</u>	<u>\$ 1,619,009</u>
Plan fiduciary net position as percentage of the total pension liability	47.72%	36.11%	47.10%	65.45%
Covered-employee payroll	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
Net pension liability as a percentage of covered-employee payroll	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
<b>Schedule of Investment Returns</b>				
Annual money-weighted rate of return, net of investment expense	5.70%	-3.74%	-3.70%	16.20%

(1) - Only fiscal years 2017, 2016, 2015, and 2014 were available. The City will continue to present information for years available until a full 10-year trend is compiled.

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

**CITY OF COVINGTON, KENTUCKY**  
 Required Supplementary Information -  
 Police and Firemen's Retirement Plan  
 Fiscal Years 2017, 2016, 2015 and 2014 <sup>(1)</sup>

	2017	2016	2015	2014
<b>Schedule of City Contributions</b>				
Actuarially determined contribution	\$ 577,711	\$ 445,224	\$ 445,224	\$ 283,601
Contributions in relation to the actuarially determined contribution	<u>573,000</u>	<u>269,327</u>	<u>269,327</u>	<u>384,806</u>
Contribution deficiency (excess)	<u>\$ 4,711</u>	<u>\$ 175,897</u>	<u>\$ 175,897</u>	<u>\$ (101,205)</u>
Covered-employee payroll	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
Actual contributions as a percentage of covered-employee payroll	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
<b>Schedule of Changes in the Net Position Liability and Related Ratios</b>				
Total pension liability				
Interest	\$ 385,334	\$ 628,379	\$ 726,953	\$ 774,059
Benefit changes	146,022	-	-	38,609
Difference between expected and actual experience	123,207	57,418	124,618	(17,688)
Changes of assumptions	(3,069,911)	2,400,570	3,678,886	-
Benefit payments	<u>(1,348,765)</u>	<u>(1,382,618)</u>	<u>(1,406,659)</u>	<u>(1,438,900)</u>
Net change in total pension liability	(3,764,113)	1,703,749	3,123,798	(643,920)
Total pension liability - beginning	<u>15,210,862</u>	<u>13,507,113</u>	<u>10,383,315</u>	<u>11,027,235</u>
Total pension liability - ending	<u>\$ 11,446,749</u>	<u>\$ 15,210,862</u>	<u>\$ 13,507,113</u>	<u>\$ 10,383,315</u>
Plan fiduciary net position				
Contributions-employer	\$ 573,000	\$ 269,327	\$ 269,327	\$ 359,506
Impounding lot	-	-	2,578	30,383
Net investment income	592,661	(240,496)	(253,088)	1,133,103
Benefit payments	(1,348,765)	(1,382,618)	(1,403,457)	(1,446,162)
Administrative expense	<u>(7,080)</u>	<u>(7,200)</u>	<u>(7,869)</u>	<u>(28,113)</u>
Net change in plan fiduciary net position	(190,184)	(1,360,987)	(1,392,509)	48,717
Plan fiduciary net position - beginning	<u>4,992,324</u>	<u>6,353,311</u>	<u>7,745,820</u>	<u>7,697,103</u>
Plan fiduciary net position - ending	<u>\$ 4,802,140</u>	<u>\$ 4,992,324</u>	<u>\$ 6,353,311</u>	<u>\$ 7,745,820</u>
Net pension liability	<u>\$ 6,644,609</u>	<u>\$ 10,218,538</u>	<u>\$ 7,153,802</u>	<u>\$ 2,637,495</u>
Plan fiduciary net position as percentage of the total pension liability	41.95%	32.82%	47.04%	74.60%
Covered-employee payroll	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
Net pension liability as a percentage of covered-employee payroll	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
<b>Schedule of Investment Returns</b>				
Annual money-weighted rate of return, net of investment expense	10.90%	-3.56%	-3.95%	16.48%

(1) - Only fiscal years 2017, 2016, 2015, and 2014 were available. The City will continue to present information for years available until a full 10-year trend is compiled.

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

**CITY OF COVINGTON, KENTUCKY**

Notes to Required Supplementary Information

Year Ended June 30, 2017

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

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

**Note 3. Change in Assumptions:** In 2015, the discount rate was revised in accordance with GASB 67. The mortality table was updated to the current table and projection to better reflect anticipated future mortality experience under the plan.

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

	Employees' Retirement Plan	Police and Firemen's Retirement Plan
Actuarial cost method	Entry age	Entry age
Amortization method	20-year closed amortization	20-year closed amortization
Asset valuation method	Market Value	Market Value
Investment rate of return	7.5%, compounded annually net of investment expenses, including inflation	7.5%, compounded annually net of investment expenses, including inflation
Retirement age	Immediate	Immediate
Mortality	RP-2014 Total Mortality Table projected generationally using Scale MP-2016.	RP-2014 Total Mortality Table with Blue Collar adjustment projected generationally using Scale MP-2016

**CITY OF COVINGTON, KENTUCKY**  
Schedule of the Proportionate Share of Net Pension Liability  
Non-hazardous and Hazardous  
County Employee Retirement System  
Last four fiscal years <sup>(1)</sup>

	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Non-hazardous:</b>				
City's proportion of the net pension liability	0.240%	0.242%	0.260%	0.260%
City's proportionate share of the net pension liability	\$ 11,836,501	\$ 10,425,611	\$ 8,401,100	\$ 9,506,000
City's covered-employee payroll <sup>(2)</sup>	\$ 5,723,087	\$ 5,670,221	\$ 5,942,202	\$ 5,668,276
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	206.82%	183.87%	141.38%	167.71%
Plan fiduciary net position as a percentage of the total pension liability	55.5%	60.0%	66.8%	61.2%
<b>Hazardous:</b>				
City's proportion of the net pension liability	2.81%	2.91%	2.85%	2.85%
City's proportionate share of the net pension liability	\$ 48,235,603	\$ 44,623,090	\$ 34,207,001	\$ 38,200,000
City's covered-employee payroll <sup>(2)</sup>	\$ 14,877,913	\$ 14,814,779	\$ 14,427,951	\$ 14,110,813
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	324.21%	301.21%	237.09%	270.71%
Plan fiduciary net position as a percentage of the total pension liability	53.95%	57.5%	63.4%	57.7%

(1) Information prior to 2014 is not available

(2) The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll reported on the Schedule of Contributions.

**CITY OF COVINGTON, KENTUCKY**

Schedule of City Contributions

For the Years Ended June 30, 2017, 2016, 2015 and 2014 <sup>(1)</sup>

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Non-hazardous:</b>				
Contractually required contribution	\$ 1,108,364	\$ 976,359	\$ 1,001,928	\$ 1,122,482
Contributions in relation to the contractually required contribution	<u>1,108,364</u>	<u>976,359</u>	<u>1,001,928</u>	<u>1,122,482</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll <sup>(2)</sup>	\$ 5,933,424	\$ 5,723,087	\$ 5,670,221	\$ 5,942,202
Contributions as a percentage of covered-employee payroll	18.68%	17.06%	17.67%	18.89%
<b>Hazardous:</b>				
Contractually required contribution	\$ 4,999,500	\$ 4,902,272	\$ 5,082,951	\$ 5,150,779
Contributions in relation to the contractually required contribution	<u>4,999,500</u>	<u>4,902,272</u>	<u>5,082,951</u>	<u>5,150,779</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll <sup>(2)</sup>	\$ 16,096,264	\$ 14,877,913	\$ 14,814,779	\$ 14,427,951
Contributions as a percentage of covered-employee payroll	31.06%	32.95%	34.31%	35.70%

(1) Information prior to 2014 is not available

(2) The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The contributions include both the pension and insurance portions

**CITY OF COVINGTON, KENTUCKY**  
Notes to Required Supplementary Information  
Year Ended June 30, 2017

**Note 1. Methods and Assumptions Used to Determine Contribution Rates:**

	<u>CERS</u>
Investment rate of return	7.5%, compounded annually net of investment expenses, including inflation
Rate of Inflation	3.25%
Wage Inflation	0.75%
Payroll Growth Assumption	4.00%
Mortality	RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males & 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

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## **Supplement Section**

### **Combining Statements And Individual Fund Schedules**

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# CITY OF COVINGTON, KENTUCKY

## SPECIAL REVENUE FUNDS

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

### **Nonmajor Special Revenue Funds:**

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

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

The **HOME Program Fund** accounts for resources provided by the U.S. Department of Housing and Urban Development under the HOME Program. Proceeds are used for deferred loans which are used to acquire, construct or rehabilitate housing for low income families.

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

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

The **HOME Consortium Fund** was established to administer a HOME Program for a consortium of non-entitlement cities in Northern Kentucky, including Newport, Bellevue, Dayton, Ludlow, and Bromley. HOME funds are used to provide assistance to persons to purchase a home, owner-occupied rehab programs, and housing development activities with Community Housing Development organizations.

The **Housing Voucher Program Fund** accounts for funds provided to the City by the U.S. Department of Housing and Urban Development Section 8 rent subsidy program. Resources are used for the payment of rent subsidies to landlords on behalf of qualified tenants.

# CITY OF COVINGTON, KENTUCKY

## Nonmajor Special Revenue Funds:

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

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

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

The **Capital Reserve Fund** was established to provide for more reliable funding and investment in the City's infrastructure needs, and to reduce the City's reliance on long-term debt as a financing tool for such needs.

The **Infrastructure Fund** was established to provide for more reliable funding and reinvestment in the City's infrastructure needs.

The **Covington Economic Development Authority (CEDA) Fund** was established to provide for more reliable funding of economic development, projects, programs, and services in the City.

The **Fleet, Equipment, Technology, Facilities, and other Capital Projects Fund** was established to provide for the City's business needs so that services can be efficiently and effectively maintained and delivered, including fleet, equipment, technology, facilities, and other capital projects as determined by the Board of Commissioners.

The **Waste Fund** accounts for revenues and expenditures related to the City's waste management contract.

The **Ambulance Fund** accounts for revenues and expenditures related to the City's ambulance service.

The **Personnel & Benefits Fund** was established to provide for appropriate staffing and compensation for City Employees, as determined by the Board of Commissioners.

## INTERNAL SERVICE FUNDS

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

### **Internal Service Funds:**

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

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

## AGENCY FUND

Agency funds are used to account for assets held in custodial capacity.

### **Agency Fund:**

The **Real Estate Fund** accounts for Covington's Community Development Initiative to develop vacant or abandoned properties.

CITY OF COVINGTON, KENTUCKY  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2017

	Nonmajor Special Revenue Funds																Total Nonmajor Governmental Funds		
	Federal & State Grants	Community Development Block Grant	HOME Program	One Stop Shop	Capital Reserve	Police Forfeiture Justice	HOME Consortium	Housing Voucher Program	Infrastructure Fund	CEDA	Neighborhood Stabilization Program	Police & Fire Supplemental Pay	Fleet Equipment & Technology	Waste	Ambulance	Personnel & Benefits		Devou Park Maintenance	Devou Park Master Plan
<b>Assets</b>																			
Cash and cash equivalents	\$ 227,775	\$ 345,661	\$ 171,088	\$ 664,914	\$ 700,000	\$ 175,124	\$ -	\$ 470,153	\$ 784,255	\$ 457,397	\$ -	\$ 239,640	\$ 368,834	\$ 277,536	\$ 14,509	\$ -	\$ 243,013	\$ 44,064	\$ 5,183,963
Intergovernmental	467,071	263,493	6,469	-	-	-	17,959	-	-	-	-	46,105	-	-	-	-	-	-	801,097
Notes	-	-	-	-	-	-	-	-	-	496,607	-	-	-	-	-	-	-	-	496,607
Accounts	26,609	-	-	-	-	-	-	28,123	-	-	-	-	-	-	-	-	-	-	54,732
Due from other funds	-	-	40,750	-	-	1,197	-	-	-	-	-	-	-	247,772	-	-	-	-	289,719
Total assets	\$ 721,455	\$ 609,154	\$ 218,307	\$ 664,914	\$ 700,000	\$ 176,321	\$ 17,959	\$ 498,276	\$ 784,255	\$ 954,004	\$ -	\$ 285,745	\$ 368,834	\$ 525,308	\$ 14,509	\$ -	\$ 243,013	\$ 44,064	\$ 6,826,118
<b>Liabilities:</b>																			
Accounts payable	\$ 265,374	\$ 194,484	\$ 10,028	\$ -	\$ -	\$ 4,750	\$ 5,019	\$ 13,234	\$ 10,079	\$ 5,120	\$ -	\$ -	\$ 102,213	\$ 130,848	\$ 12,367	\$ -	\$ 4,027	\$ 1,640	\$ 759,183
Due to other funds	439,943	267,424	1,035	7,594	-	-	140,972	46,629	285,539	-	-	437,192	-	-	-	-	-	200,000	1,826,328
Unearned revenue	-	-	-	-	-	-	-	141,896	-	-	-	-	-	-	-	-	-	-	141,896
Total liabilities	705,317	461,908	11,063	7,594	-	4,750	145,991	201,759	295,618	5,120	-	437,192	102,213	130,848	12,367	-	4,027	201,640	2,727,407
<b>Deferred Inflow of Resources:</b>																			
Unavailable revenue	-	-	-	-	-	-	-	-	-	502,219	-	-	-	-	-	-	-	-	502,219
<b>Fund balances:</b>																			
Restricted	16,138	147,246	207,244	-	-	171,571	-	296,517	-	-	-	-	-	-	-	-	238,986	-	1,077,702
Committed	-	-	-	657,320	700,000	-	-	-	488,637	446,665	-	-	266,621	394,460	2,142	-	-	-	2,955,845
Assigned	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	(128,032)	-	-	-	(151,447)	-	-	-	-	-	-	(157,576)	(437,055)
Total fund balances	16,138	147,246	207,244	657,320	700,000	171,571	(128,032)	296,517	488,637	446,665	(151,447)	266,621	394,460	2,142	-	-	238,986	(157,576)	3,596,492
Total liabilities, deferred inflows of																			
Total liabilities and fund balances	\$ 721,455	\$ 609,154	\$ 218,307	\$ 664,914	\$ 700,000	\$ 176,321	\$ 17,959	\$ 498,276	\$ 784,255	\$ 954,004	\$ -	\$ 285,745	\$ 368,834	\$ 525,308	\$ 14,509	\$ -	\$ 243,013	\$ 44,064	\$ 6,826,118

**CITY OF COVINGTON, KENTUCKY**

Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Nonmajor Governmental Funds  
Fiscal Year Ended June 30, 2017

	Nonmajor Special Revenue Funds																Total Nonmajor Governmental Funds			
	Federal & State Grants	Community Development Block Grant	HOME Program	One Stop Shop	Capital Reserve	Police Forfeiture Justice	HOME Consortium	Housing Voucher Program	Infrastructure Fund	CEDA	Neighborhood Stabilization Program	Police & Fire Supplemental Pay	Fleet Equipment & Technology	Waste	Ambulance	Personnel & Benefits	Devou Park Maintenance	Devou Park Master Plan		
<b>Revenues:</b>																				
Intergovernmental	\$ 502,642	\$ 1,263,988	\$ 282,418	\$ -	\$ -	\$ 163,622	\$ 184,659	\$ 5,872,409	\$ -	\$ -	\$ -	\$ 1,109,815	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,379,553
Charges for services	-	-	-	496,510	-	-	-	-	-	90,885	-	-	-	263,914	1,472,971	-	-	-	-	2,324,280
Investment earnings	-	-	-	-	-	90	-	53	-	39	-	-	-	-	22	-	152	18	-	374
Miscellaneous	4,898	136,573	217,873	-	-	16,811	53,088	6,446	-	54,156	-	-	3,727	-	-	-	82,329	217,529	-	793,430
Total revenues	507,540	1,400,561	500,291	496,510	-	180,523	237,747	5,878,908	-	145,080	-	1,109,815	3,727	263,914	1,472,993	-	82,481	217,547	-	12,497,637
<b>Expenditures:</b>																				
Current:																				
General government	-	-	-	-	-	-	-	-	-	-	-	-	-	5,342	106,968	551,594	66,737	42,724	-	773,365
Police	36,044	-	-	-	-	150,060	-	-	-	-	527,016	-	-	-	-	-	-	-	-	713,120
Fire	2,865	-	-	-	-	-	-	-	-	-	581,399	-	-	-	-	-	-	-	-	584,264
Public improvements	24,445	-	-	-	-	-	-	-	-	-	-	-	-	1,381,695	-	-	-	-	-	1,406,140
Community development	12,888	723,760	471,142	123,276	-	-	257,666	5,994,003	-	145,862	-	-	-	-	-	-	-	-	-	7,728,597
Debt service:																				
Principal	-	-	-	-	-	-	-	-	-	-	-	203,262	-	-	-	-	-	-	-	203,262
Interest	-	-	-	-	-	-	-	-	-	-	-	23,097	-	-	-	-	-	-	-	23,097
Capital outlay	431,298	543,060	-	-	-	53,542	-	-	344,045	-	-	-	4,457,337	-	-	-	91,506	305,823	-	6,226,611
Total expenditures	507,540	1,266,820	471,142	123,276	-	203,602	257,666	5,994,003	344,045	145,862	1,108,415	4,683,696	1,387,037	106,968	551,594	158,243	348,547	-	-	17,658,456
Excess (deficiency) of revenues over (under) expenditures	-	133,741	29,149	373,234	-	(23,079)	(19,919)	(115,095)	(344,045)	(782)	1,400	(4,679,969)	(1,123,123)	1,366,025	(551,594)	(75,762)	(131,000)	(131,000)	-	(5,160,819)
<b>Other financing sources (uses):</b>																				
Transfers in	-	-	-	444,507	350,000	-	-	-	832,682	76,563	-	-	125	1,517,583	150,000	832,682	-	-	-	4,204,142
Transfers out	-	(137,017)	-	(521,070)	-	-	-	-	-	-	-	-	-	-	(1,513,883)	(533,395)	(55,294)	-	-	(2,760,659)
Inception of capital lease	-	-	-	-	-	-	-	-	-	-	-	3,791,165	-	-	-	-	-	-	-	3,791,165
Total other financing sources (uses)	-	(137,017)	-	(76,563)	350,000	-	-	-	832,682	76,563	-	-	3,791,290	1,517,583	(1,363,883)	299,287	(55,294)	-	-	5,234,648
Net change in fund balances	-	(3,276)	29,149	296,671	350,000	(23,079)	(19,919)	(115,095)	488,637	75,781	1,400	(888,679)	394,460	2,142	(252,307)	(131,056)	(131,000)	(131,000)	-	73,829
Fund balance, beginning of year	16,138	150,522	178,095	360,649	350,000	194,650	(108,113)	411,612	-	370,884	-	(152,847)	1,155,300	-	-	252,307	370,042	(26,576)	-	3,522,663
Fund balance, end of year	\$ 16,138	\$ 147,246	\$ 207,244	\$ 657,320	\$ 700,000	\$ 171,571	\$ (128,032)	\$ 296,517	\$ 488,637	\$ 446,665	\$ -	\$ (151,447)	\$ 266,621	\$ 394,460	\$ 2,142	\$ -	\$ 238,986	\$ (157,576)	\$ -	\$ 3,596,492

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Federal & State Grants Fund

Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>			
Intergovernmental	\$ 4,420,000	\$ 502,642	\$ (3,917,358)
Miscellaneous	7,204,383	4,898	(7,199,485)
Total revenues	<u>11,624,383</u>	<u>507,540</u>	<u>(11,116,843)</u>
<b>Expenditures:</b>			
Current:			
Police	44,759	36,044	8,715
Fire	300,000	2,865	297,135
Public improvements	6,164,058	24,445	6,139,613
Community development	1,128,500	12,888	1,115,612
Capital outlay	<u>170,000</u>	<u>431,298</u>	<u>(261,298)</u>
Total expenditures	<u>7,807,317</u>	<u>507,540</u>	<u>7,299,777</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,817,066</u>	-	<u>(3,817,066)</u>
<b>Other financing sources (uses):</b>			
Transfers in	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	3,817,066	-	<u>\$ (3,817,066)</u>
Fund balance, beginning of year	<u>16,138</u>	<u>16,138</u>	
Fund balance, end of year	<u>\$ 3,833,204</u>	<u>\$ 16,138</u>	

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Community Development Block Grant Fund

Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>			
Intergovernmental	\$ 2,500,673	\$ 1,263,988	\$ (1,236,685)
Miscellaneous	177,499	136,573	(40,926)
Total revenues	<u>2,678,172</u>	<u>1,400,561</u>	<u>(1,277,611)</u>
<b>Expenditures:</b>			
Current:			
Community development	1,311,338	723,760	587,578
Capital outlay	<u>1,289,334</u>	<u>543,060</u>	<u>746,274</u>
Total expenditures	<u>2,600,672</u>	<u>1,266,820</u>	<u>1,333,852</u>
Excess (deficiency) of revenues over (under) expenditures	<u>77,500</u>	<u>133,741</u>	<u>56,241</u>
<b>Other financing sources (uses):</b>			
Transfers out	<u>(150,000)</u>	<u>(137,017)</u>	<u>12,983</u>
Total other financing sources (uses)	<u>(150,000)</u>	<u>(137,017)</u>	<u>12,983</u>
Net change in fund balances	(72,500)	(3,276)	<u>\$ 69,224</u>
Fund balance, beginning of year	<u>150,522</u>	<u>150,522</u>	
Fund balance, end of year	<u>\$ 78,022</u>	<u>\$ 147,246</u>	

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures and Changes in  
Fund Balance - Budget and Actual -  
HOME Program Fund  
Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>			
Intergovernmental	\$ 424,500	\$ 282,418	\$ (142,082)
Miscellaneous	100,000	217,873	117,873
Total revenues	<u>524,500</u>	<u>500,291</u>	<u>(24,209)</u>
<b>Expenditures:</b>			
Current:			
Community development	<u>524,500</u>	<u>471,142</u>	<u>53,358</u>
Total expenditures	<u>524,500</u>	<u>471,142</u>	<u>53,358</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>29,149</u>	<u>29,149</u>
Net change in fund balance	-	29,149	<u>\$ 29,149</u>
Fund balance, beginning of year	<u>178,095</u>	<u>178,095</u>	
Fund balance, end of year	<u>\$ 178,095</u>	<u>\$ 207,244</u>	

**CITY OF COVINGTON, KENTUCKY**

## Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

One Stop Shop Fund

Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>			
Miscellaneous	\$ 509,000	\$ 496,510	\$ (12,490)
Total revenues	<u>509,000</u>	<u>496,510</u>	<u>(12,490)</u>
<b>Expenditures:</b>			
Current:			
Community development	159,000	123,276	35,724
Total expenditures	<u>159,000</u>	<u>123,276</u>	<u>35,724</u>
Excess (deficiency) of revenues over (under) expenditures	<u>350,000</u>	<u>373,234</u>	<u>23,234</u>
<b>Other financing sources (uses):</b>			
Transfers in	599,648	444,507	155,141
Transfers out	<u>(547,978)</u>	<u>(521,070)</u>	<u>26,908</u>
Total other financing sources (uses)	<u>51,670</u>	<u>(76,563)</u>	<u>182,049</u>
Net change in fund balance	401,670	296,671	<u>\$ (104,999)</u>
Fund balance, beginning of year	<u>360,649</u>	<u>360,649</u>	
Fund balance, end of year	<u>\$ 762,319</u>	<u>\$ 657,320</u>	

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Capital Reserve Fund

Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b><i>Other financing sources (uses):</i></b>			
Transfers in	\$ 350,000	\$ 350,000	\$ -
Total other financing sources (uses)	<u>350,000</u>	<u>350,000</u>	<u>-</u>
 Net change in fund balance	 350,000	 350,000	 <u>\$ -</u>
 Fund balance, beginning of year	 <u>350,000</u>	 <u>350,000</u>	
Fund balance, end of year	<u>\$ 700,000</u>	<u>\$ 700,000</u>	

**CITY OF COVINGTON, KENTUCKY**

## Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Police Forfeiture Justice Fund

Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>			
Intergovernmental	\$ 173,620	\$ 163,622	\$ (9,998)
Investment earnings	100	90	(10)
Miscellaneous	<u>20,000</u>	<u>16,811</u>	<u>(3,189)</u>
Total revenues	<u>193,720</u>	<u>180,523</u>	<u>(13,197)</u>
<b>Expenditures:</b>			
Current:			
Police	223,372	150,060	73,312
Capital outlay	<u>-</u>	<u>53,542</u>	<u>(53,542)</u>
Total expenditures	<u>223,372</u>	<u>203,602</u>	<u>19,770</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(29,652)</u>	<u>(23,079)</u>	<u>6,573</u>
Net change in fund balance	(29,652)	(23,079)	<u>\$ 6,573</u>
Fund balance, beginning of year	<u>194,650</u>	<u>194,650</u>	
Fund balance, end of year	<u>\$ 164,998</u>	<u>\$ 171,571</u>	

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

HOME Consortium Fund

Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>			
Intergovernmental	\$ 320,236	\$ 184,659	\$ (135,577)
Miscellaneous	70,013	53,088	(16,925)
Total revenues	<u>390,249</u>	<u>237,747</u>	<u>(152,502)</u>
<b>Expenditures:</b>			
Current:			
Community development	<u>390,249</u>	<u>257,666</u>	<u>132,583</u>
Total expenditures	<u>390,249</u>	<u>257,666</u>	<u>132,583</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(19,919)</u>	<u>(19,919)</u>
Net change in fund balance	-	(19,919)	<u>\$ (19,919)</u>
Fund balance, beginning of year	<u>(108,113)</u>	<u>(108,113)</u>	
Fund balance, end of year	<u>\$ (108,113)</u>	<u>\$ (128,032)</u>	

**CITY OF COVINGTON, KENTUCKY**

## Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Housing Voucher Program Fund

Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>			
Intergovernmental	\$ 5,715,827	\$ 5,872,409	\$ 156,582
Investment earnings	200	53	(147)
Miscellaneous	-	6,446	6,446
Total revenues	<u>5,716,027</u>	<u>5,878,908</u>	<u>162,881</u>
<b>Expenditures:</b>			
Current:			
Community development	<u>5,903,179</u>	<u>5,994,003</u>	<u>(90,824)</u>
Total expenditures	<u>5,903,179</u>	<u>5,994,003</u>	<u>(90,824)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(187,152)</u>	<u>(115,095)</u>	<u>72,057</u>
Net change in fund balance	(187,152)	(115,095)	<u>\$ 72,057</u>
Fund balance, beginning of year	<u>411,612</u>	<u>411,612</u>	
Fund balance, end of year	<u>\$ 224,460</u>	<u>\$ 296,517</u>	

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Infrastructure Fund

Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b><i>Expenditures:</i></b>			
Current:			
Capital outlay	\$ 344,669	\$ 344,045	\$ 624
Total expenditures	<u>344,669</u>	<u>344,045</u>	<u>624</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(344,669)</u>	<u>(344,045)</u>	<u>624</u>
<b><i>Other financing sources (uses):</i></b>			
Transfers in	<u>832,682</u>	<u>832,682</u>	<u>-</u>
Total other financing sources (uses)	<u>832,682</u>	<u>832,682</u>	<u>-</u>
Net change in fund balance	488,013	488,637	<u>\$ 624</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	
Fund balance, end of year	<u>\$ 488,013</u>	<u>\$ 488,637</u>	

**CITY OF COVINGTON, KENTUCKY**

## Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

CEDA Fund

Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>			
Charges for services	\$ 260,000	\$ 90,885	\$ (169,115)
Investment earnings	10,000	39	(9,961)
Miscellaneous	55,000	54,156	(844)
Total revenues	<u>325,000</u>	<u>145,080</u>	<u>(179,920)</u>
<b>Expenditures:</b>			
Current:			
Community development	234,771	145,862	88,909
Total expenditures	<u>234,771</u>	<u>145,862</u>	<u>88,909</u>
Excess (deficiency) of revenues over (under) expenditures	<u>90,229</u>	<u>(782)</u>	<u>(91,011)</u>
<b>Other financing sources (uses):</b>			
Transfers in	545,000	76,563	468,437
Total other financing sources (uses)	<u>545,000</u>	<u>76,563</u>	<u>468,437</u>
Net change in fund balance	635,229	75,781	<u>\$ 377,426</u>
Fund balance, beginning of year	370,884	370,884	
Fund balance, end of year	<u>\$ 1,006,113</u>	<u>\$ 446,665</u>	

**CITY OF COVINGTON, KENTUCKY**

## Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Fleet, Equipment, Technology, Facilities, &amp; Other Capital Projects Fund

Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>			
Miscellaneous	\$ -	\$ 3,727	\$ 3,727
Total revenues	<u>-</u>	<u>3,727</u>	<u>3,727</u>
<b>Expenditures:</b>			
Debt service:			
Principal	158,015	203,262	(45,247)
Interest	11,096	23,097	(12,001)
Capital outlay	<u>986,314</u>	<u>4,457,337</u>	<u>(3,471,023)</u>
Total expenditures	<u>1,155,425</u>	<u>4,683,696</u>	<u>(3,528,271)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,155,425)</u>	<u>(4,679,969)</u>	<u>(3,524,544)</u>
<b>Other financing sources (uses):</b>			
Transfers in	1,112,752	125	1,112,627
Inception of capital lease	<u>-</u>	<u>3,791,165</u>	<u>(3,791,165)</u>
Total other financing sources (uses)	<u>1,112,752</u>	<u>3,791,290</u>	<u>(2,678,538)</u>
Net change in fund balance	(42,673)	(888,679)	<u>\$ (6,203,082)</u>
Fund balance, beginning of year	<u>1,155,300</u>	<u>1,155,300</u>	
Fund balance, end of year	<u>\$ 1,112,627</u>	<u>\$ 266,621</u>	

**CITY OF COVINGTON, KENTUCKY**

## Schedule of Revenues, Expenditures and Changes in

## Fund Balance - Budget and Actual -

## Waste Fund

Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>			
Charges for services	\$ -	\$ 263,914	\$ 263,914
Total revenues	<u>-</u>	<u>263,914</u>	<u>263,914</u>
<b>Expenditures:</b>			
Current:			
General government	7,500	5,342	2,158
Public improvements	<u>1,868,776</u>	<u>1,381,695</u>	<u>487,081</u>
Total expenditures	<u>1,876,276</u>	<u>1,387,037</u>	<u>489,239</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,876,276)</u>	<u>(1,123,123)</u>	<u>753,153</u>
<b>Other financing sources (uses):</b>			
Transfers in	<u>2,560,786</u>	<u>1,517,583</u>	<u>1,043,203</u>
Total other financing sources (uses)	<u>2,560,786</u>	<u>1,517,583</u>	<u>1,043,203</u>
Net change in fund balance	684,510	394,460	<u>\$ 1,796,356</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	
Fund balance, end of year	<u>\$ 684,510</u>	<u>\$ 394,460</u>	

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures and Changes in  
 Fund Balance - Budget and Actual -  
 Ambulance Fund  
 Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>			
Charges for services	\$ 367,796	\$ 1,472,971	\$ 1,105,175
Investment earnings	-	22	22
Total revenues	<u>367,796</u>	<u>1,472,993</u>	<u>1,105,197</u>
<b>Expenditures:</b>			
Current:			
General government	<u>155,150</u>	<u>106,968</u>	<u>48,182</u>
Total expenditures	<u>155,150</u>	<u>106,968</u>	<u>48,182</u>
Excess (deficiency) of revenues over (under) expenditures	<u>212,646</u>	<u>1,366,025</u>	<u>1,153,379</u>
<b>Other financing sources (uses):</b>			
Transfers in	1,204,188	150,000	1,054,188
Transfers out	<u>(1,305,976)</u>	<u>(1,513,883)</u>	<u>207,907</u>
Total other financing sources (uses)	<u>(101,788)</u>	<u>(1,363,883)</u>	<u>1,262,095</u>
Special item	-	-	-
Net change in fund balance	110,858	2,142	<u>\$ 2,415,474</u>
Fund balance, beginning of year	-	-	
Fund balance, end of year	<u>\$ 110,858</u>	<u>\$ 2,142</u>	

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Personnel & Benefits Fund

Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Expenditures:</b>			
Current:			
General government	\$ 450,000	\$ 551,594	\$ (101,594)
Total expenditures	<u>450,000</u>	<u>551,594</u>	<u>(101,594)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(450,000)</u>	<u>(551,594)</u>	<u>(101,594)</u>
<b>Other financing sources (uses):</b>			
Transfers in	580,375	832,682	(252,307)
Transfers out	<u>(382,682)</u>	<u>(533,395)</u>	<u>150,713</u>
Total other financing sources (uses)	<u>197,693</u>	<u>299,287</u>	<u>(101,594)</u>
Net change in fund balance	(252,307)	(252,307)	<u>\$ (203,188)</u>
Fund balance, beginning of year	<u>252,307</u>	<u>252,307</u>	
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Police & Fire Supplemental Pay Fund

Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues:</b>			
Intergovernmental	\$ 1,205,274	\$ 1,109,815	\$ (95,459)
Total revenues	<u>1,205,274</u>	<u>1,109,815</u>	<u>(95,459)</u>
<b>Expenditures:</b>			
Current:			
Police	531,700	527,016	(50,664)
Fire	<u>520,728</u>	<u>581,399</u>	<u>(23,147)</u>
Total expenditures	<u>1,052,428</u>	<u>1,108,415</u>	<u>(73,811)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>152,846</u>	<u>1,400</u>	<u>(151,446)</u>
Net change in fund balance	152,846	1,400	<u>\$ (151,446)</u>
Fund balance, beginning of year	<u>(152,847)</u>	<u>(152,847)</u>	
Fund balance, end of year	<u>\$ (1)</u>	<u>\$ (151,447)</u>	

**CITY OF COVINGTON, KENTUCKY**

## Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Devou Park Maintenance Fund

Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>			
Investment earnings	\$ -	\$ 152	\$ 152
Miscellaneous	263,000	82,329	(180,671)
Total revenues	<u>263,000</u>	<u>82,481</u>	<u>(180,519)</u>
<b>Expenditures:</b>			
Current:			
General government	116,701	66,737	49,964
Capital outlay	91,506	91,506	-
Total expenditures	<u>208,207</u>	<u>158,243</u>	<u>49,964</u>
Excess (deficiency) of revenues over (under) expenditures	<u>54,793</u>	<u>(75,762)</u>	<u>(130,555)</u>
<b>Other financing sources (uses):</b>			
Transfers out	(55,294)	(55,294)	-
Total other financing sources (uses)	<u>(55,294)</u>	<u>(55,294)</u>	<u>-</u>
Net change in fund balance	(501)	(131,056)	<u>\$ (130,555)</u>
Fund balance, beginning of year	370,042	370,042	
Fund balance, end of year	<u>\$ 369,541</u>	<u>\$ 238,986</u>	

**CITY OF COVINGTON, KENTUCKY**

## Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Devou Park Master Plan Fund

Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>			
Investment earnings	\$ -	\$ 18	\$ 18
Miscellaneous	750,000	217,529	(532,471)
Total revenues	<u>750,000</u>	<u>217,547</u>	<u>(532,453)</u>
<b>Expenditures:</b>			
Current:			
General government	431,361	42,724	388,637
Capital outlay	<u>305,821</u>	<u>305,823</u>	<u>(2)</u>
Total expenditures	<u>737,182</u>	<u>348,547</u>	<u>388,635</u>
Excess (deficiency) of revenues over (under) expenditures	<u>12,818</u>	<u>(131,000)</u>	<u>(143,818)</u>
Net change in fund balance	12,818	(131,000)	<u>\$ (143,818)</u>
Fund balance, beginning of year	<u>(26,576)</u>	<u>(26,576)</u>	
Fund balance, end of year	<u>\$ (13,758)</u>	<u>\$ (157,576)</u>	

**CITY OF COVINGTON, KENTUCKY**

Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Pension Obligation 2004 Fund

Fiscal Year Ended June 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b><i>Expenditures:</i></b>			
Debt service:			
Principal	\$ -	\$ -	\$ -
Interest	-	-	-
Bond issuance costs	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>-</u>	 <u>-</u>	 <u>\$ -</u>
 Fund balance, beginning of year	 <u>401,000</u>	 <u>401,000</u>	
Fund balance, end of year	<u>\$ 401,000</u>	<u>\$ 401,000</u>	

**CITY OF COVINGTON, KENTUCKY**

## Schedule of Revenues, Expenditures and Changes in

Fund Balance - Budget and Actual -

Capital Improvement Fund

Fiscal Year Ended June 30, 2017

	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>			
Investment earnings	\$ -	\$ 33,378	\$ 33,378
Miscellaneous	25,000	32,188	7,188
Total revenues	<u>25,000</u>	<u>65,566</u>	<u>40,566</u>
<b>Expenditures:</b>			
Current:			
Public improvements	538,158	215,886	322,272
Capital outlay	<u>8,264,807</u>	<u>7,016,392</u>	<u>1,248,415</u>
Total expenditures	<u>8,802,965</u>	<u>7,232,278</u>	<u>1,570,687</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,777,965)</u>	<u>(7,166,712)</u>	<u>(1,611,253)</u>
<b>Other financing sources (uses):</b>			
Transfers in	<u>450,000</u>	<u>450,000</u>	<u>-</u>
Total other financing sources (uses)	<u>450,000</u>	<u>450,000</u>	<u>-</u>
Net change in fund balances	(8,327,965)	(6,716,712)	<u>\$ (1,611,253)</u>
Fund balance, beginning of year	<u>11,092,849</u>	<u>11,092,849</u>	
Fund balance, end of year	<u>\$ 2,764,884</u>	<u>\$ 4,376,137</u>	

**CITY OF COVINGTON, KENTUCKY**  
Combining Statement of Net Position  
Internal Service Funds  
June 30, 2017

	<u>Liability Self Insurance</u>	<u>Medical Self Insurance</u>	<u>Total Internal Service Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,740,132	\$ 520,649	\$ 2,260,781
Due from other funds	<u>805,397</u>	<u>754,990</u>	<u>1,560,387</u>
Total assets	<u>2,545,529</u>	<u>1,275,639</u>	<u>3,821,168</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	81,698	13,938	95,636
Claims payable	<u>-</u>	<u>1,499,976</u>	<u>1,499,976</u>
Total liabilities	81,698	1,513,914	1,595,612
<b>Noncurrent Liabilities</b>			
Claims payable	<u>2,568,280</u>	<u>-</u>	<u>2,568,280</u>
Total liabilities	<u>2,649,978</u>	<u>1,513,914</u>	<u>4,163,892</u>
<b>Net Position</b>			
Unrestricted	<u>(104,449)</u>	<u>(238,275)</u>	<u>(342,724)</u>
Total net position	<u>\$ (104,449)</u>	<u>\$ (238,275)</u>	<u>\$ (342,724)</u>

**CITY OF COVINGTON, KENTUCKY**

Combining Statement of Revenues, Expenses  
and Changes in Net Position  
Internal Service Funds  
Fiscal Year Ended June 30, 2017

	Liability Self Insurance	Medical Self Insurance	Total Internal Service Funds
<b>Operating revenues:</b>			
Insurance premiums	\$ -	\$ 4,375,079	\$ 4,375,079
Other	-	4,047	4,047
Total operating revenues	-	4,379,126	4,379,126
<b>Operating expenses:</b>			
Contractual services	361,919	614,059	975,978
Claims and judgments	62,072	4,242,617	4,304,689
Total operating expenses	423,991	4,856,676	5,280,667
Operating loss	(423,991)	(477,550)	(901,541)
<b>Non-operating revenues (expenses):</b>			
Investment income	345	142	487
Total non-operating revenues (expenses)	345	142	487
Loss before transfers	(423,646)	(477,408)	(901,054)
Transfers in	801,600	256,877	1,058,477
Change in net position	377,954	(220,531)	157,423
Net position, beginning of year	(482,403)	(17,744)	(500,147)
Net position, end of year	\$ (104,449)	\$ (238,275)	\$ (342,724)

**CITY OF COVINGTON, KENTUCKY**  
Combining Statement of Cash Flows  
Internal Service Funds  
Fiscal Year Ended June 30, 2017

	Liability Self Insurance	Medical Self Insurance	Total Internal Service Funds
<b><i>Cash flows from operating activities:</i></b>			
Cash received from other funds	\$ (346,329)	\$ 5,063,645	\$ 4,717,316
Cash received from other income	-	4,047	4,047
Cash payments for claims	<u>(432,114)</u>	<u>(4,979,561)</u>	<u>(5,411,675)</u>
Net cash flows from operating activities	<u>(778,443)</u>	<u>88,131</u>	<u>(690,312)</u>
<b><i>Cash flows from noncapital financing activities:</i></b>			
Transfers	<u>801,600</u>	<u>256,877</u>	<u>1,058,477</u>
Net cash provided by noncapital financing activities	<u>801,600</u>	<u>256,877</u>	<u>1,058,477</u>
<b><i>Cash flows from investing activities:</i></b>			
Interest income	<u>345</u>	<u>142</u>	<u>487</u>
Net cash provided by investing activities	<u>345</u>	<u>142</u>	<u>487</u>
Net change	23,502	345,150	368,652
Cash and cash equivalents, beginning of year	<u>1,716,630</u>	<u>175,499</u>	<u>1,892,129</u>
Cash and cash equivalents, end of year	<u>\$ 1,740,132</u>	<u>\$ 520,649</u>	<u>\$ 2,260,781</u>
Reconciliation of operating loss to net cash flows from operating activities			
Operating loss	\$ (423,991)	\$ (477,550)	\$ (901,541)
Adjustments to reconcile operating loss to net cash flows from operating activities:			
Changes in assets and liabilities:			
Due from/to other funds	(346,329)	688,567	342,238
Accounts payable	(8,123)	4,234	(3,889)
Claims payable	<u>-</u>	<u>(127,120)</u>	<u>(127,120)</u>
Net cash flows from operating activities	<u>\$ (778,443)</u>	<u>\$ 88,131</u>	<u>\$ (690,312)</u>

**CITY OF COVINGTON, KENTUCKY**

Statement of Changes in Fiduciary Net Position

Agency Funds

Fiscal Year Ended June 30, 2017

	Beginning Balance 7/1/2016	Additions	Deductions	Ending Balance 6/30/2017
<b>Real Estate Transactions</b>				
<b>Assets:</b>				
Cash	\$ 22,629	\$ 34,591	\$ 51,794	\$ 5,426
<b>Liabilities:</b>				
Due to others	\$ 22,629	\$ 6,390	\$ 23,593	\$ 5,426

See accompanying notes to the basic financial statements.

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**STATISTICAL  
SECTION**

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

	Fiscal Year									
	2017	2016	<i>(as restated)</i> 2015	<i>(as restated)</i> 2014	<i>(as restated)</i> 2013	2012	2011	2010	2009	2008
Governmental Activities / Primary Government										
Net Investment in Capital Assets	\$ 23,790,740	\$ 26,724,688	\$ 27,899,604	\$ 29,360,778	\$ 33,666,204	\$ 34,173,497	\$ 36,088,303	\$ 34,539,885	\$ 36,577,167	\$ 41,334,965
Restricted for Capital Improvements	4,376,137	-	-	2,614,198	580,454	190,681	1,577,223	-	-	-
Restricted for Debt Service	401,000	401,000	401,000	401,000	401,000	-	-	-	-	-
Restricted for HUD Programs	651,007	632,116	2,938,475	3,622,306	3,565,125	16,648,464	1,318,568	-	-	-
Restricted for other purposes	426,695	1,620,898	-	16,139	14,887	-	27,361	91,138	193,693	550,682
Unrestricted (deficit)	(49,289,475)	(56,738,795)	(59,904,755)	(52,978,362)	(13,385,806)	(4,806,437)	8,933,230	13,587,660	16,638,487	16,603,105
Total Governmental Activities Net Position	<u>\$ (19,643,896)</u>	<u>\$ (27,360,093)</u>	<u>\$ (28,665,676)</u>	<u>\$ (16,963,941)</u>	<u>\$ 24,841,864</u>	<u>\$ 46,206,205</u>	<u>\$ 47,944,685</u>	<u>\$ 48,218,683</u>	<u>\$ 53,409,347</u>	<u>\$ 58,488,752</u>

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

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

	Fiscal Year									
	2017	2016	(as restated) 2015	2014	2013	2012	2011	2010	2009	2008
<b>Governmental Activities Expenses</b>										
General Government	\$ 6,604,320	\$ 10,612,219	\$ 12,474,158	\$ 5,916,248	\$ 4,028,857	\$ 4,250,735	\$ 3,814,055	\$ 6,089,518	\$ 12,149,528	\$ 7,807,872
Police	14,453,789	16,091,991	13,287,449	14,177,725	15,464,519	16,455,964	16,536,402	16,498,516	15,593,684	15,501,195
Fire	13,176,016	15,301,811	12,882,780	13,060,943	13,727,885	15,180,999	15,318,421	15,048,966	14,224,985	14,753,208
Public Improvements	8,784,729	7,806,788	14,691,139	13,769,904	10,916,212	11,349,786	11,780,808	11,847,116	7,185,210	5,995,347
Recreation	-	-	-	-	683,742	711,584	734,672	796,215	2,740,960	2,426,639
Community Development	10,312,912	9,789,169	9,179,648	11,159,338	13,912,337	15,379,018	13,771,124	12,484,045	10,217,357	9,777,154
Parking Garage	868,353	774,460	738,147	734,598	783,059	768,661	865,947	732,362	701,986	747,677
Interest on Long-term Debt	1,984,708	2,171,812	3,000,362	1,654,352	2,181,165	1,324,845	1,676,776	1,716,153	2,052,549	1,935,242
<b>Total Governmental Activities Expenses</b>	<b>56,184,827</b>	<b>62,548,250</b>	<b>66,253,683</b>	<b>60,473,108</b>	<b>61,697,776</b>	<b>65,421,592</b>	<b>64,498,205</b>	<b>65,212,891</b>	<b>64,866,259</b>	<b>58,944,334</b>
<b>Program Revenues</b>										
General Government	2,640,012	1,815,216	1,028,301	940,479	1,214,447	936,996	968,682	1,136,249	993,267	1,145,333
Police	-	-	3,891	58,002	133,915	189,671	307,539	412,722	406,557	382,318
Fire	11,029	1,449,356	1,238,640	1,391,914	1,238,042	1,333,724	1,175,621	1,282,105	1,077,448	1,084,825
Public Improvements	1,098,612	2,952,715	1,292,573	2,343,079	2,506,617	2,342,050	2,082,635	1,918,838	1,859,171	1,464,056
Recreation	-	-	-	-	11,739	22,753	-	-	-	-
Community Development	1,086,948	1,065,050	1,389,251	738,833	79,873	169,209	98,196	79,317	37,833	41,860
Parking Garage	2,078,859	2,032,348	1,806,791	1,554,915	1,353,754	1,674,834	1,458,784	1,179,276	1,143,276	1,120,916
Interest on Long-term Debt	-	-	-	-	-	-	-	-	-	-
Operating Grants and Contributions	10,178,394	9,564,948	8,898,601	10,842,196	11,932,368	12,518,909	13,533,951	10,727,972	9,664,170	10,823,567
Capital Grants and Contributions	456,927	867,341	1,143,363	2,317,723	1,290,469	1,647,156	2,558,805	1,624,312	1,650,920	2,050,654
<b>Total Governmental Activities Revenues</b>	<b>17,550,781</b>	<b>19,746,974</b>	<b>16,801,411</b>	<b>20,187,141</b>	<b>19,761,224</b>	<b>20,835,302</b>	<b>22,184,213</b>	<b>18,360,791</b>	<b>16,832,642</b>	<b>18,113,529</b>
<b>Program Revenues Over (Under) Expenses</b>	<b>(38,634,046)</b>	<b>(42,801,276)</b>	<b>(49,452,272)</b>	<b>(40,285,967)</b>	<b>(41,936,552)</b>	<b>(44,586,290)</b>	<b>(42,313,992)</b>	<b>(46,852,100)</b>	<b>(48,033,617)</b>	<b>(40,830,805)</b>
<b>General Revenues and Changes in Net Assets</b>										
Taxes										
Real Property-Levied for General Purposes	6,566,434	6,701,787	6,392,706	6,085,654	6,043,907	6,141,332	6,481,511	6,114,035	6,024,885	4,680,355
Personal Property-Levied for General Purposes	676,397	706,359	654,885	764,100	655,275	796,259	516,905	557,999	653,748	601,109
Public Services	2,110,822	1,946,897	2,141,952	2,131,042	2,018,535	1,944,431	2,107,927	2,085,706	2,140,821	2,178,804
Taxes-Levied for Bank Deposits	73,367	82,872	72,843	65,134	62,729	87,014	71,391	60,603	53,161	67,789
Insurance Premium	7,909,903	6,932,552	5,430,601	5,672,059	5,279,824	4,988,428	5,155,801	5,588,067	5,430,628	4,860,194
Payroll	25,097,302	24,216,488	22,791,569	22,222,546	22,974,835	22,764,392	22,595,598	22,850,229	23,697,247	23,287,559
Net Profit	3,325,037	2,924,268	3,161,057	2,829,873	2,710,237	3,011,825	2,404,497	2,285,504	2,555,089	2,779,489
Other	-	-	-	-	303,944	805,015	840,953	796,091	790,752	647,217
Investment Earnings	222,575	164,973	3,932	4,287	96,889	23,084	47,503	25,094	112,064	317,416
Gain (Loss) on Disposal of Capital Assets	-	-	-	-	-	-	-	-	-	-
Miscellaneous	368,406	430,663	497,752	159,730	577,261	2,286,030	1,817,908	1,298,108	1,495,817	2,015,326
Special Item	-	-	-	(17,000)	(102,445)	-	-	-	-	-
<b>Total General Revenues and Transfers</b>	<b>46,350,243</b>	<b>44,106,859</b>	<b>41,147,297</b>	<b>39,917,425</b>	<b>40,620,991</b>	<b>42,847,810</b>	<b>42,039,994</b>	<b>41,661,436</b>	<b>42,954,212</b>	<b>41,435,258</b>
<b>Restatement</b>	<b>-</b>	<b>-</b>	<b>(982,647)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in Net Position</b>	<b>\$ 7,716,197</b>	<b>\$ 1,305,583</b>	<b>\$ (9,287,622)</b>	<b>\$ (368,542)</b>	<b>\$ (1,315,561)</b>	<b>\$ (1,738,480)</b>	<b>\$ (273,998)</b>	<b>\$ (5,190,664)</b>	<b>\$ (5,079,405)</b>	<b>\$ 604,453</b>

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

	Fiscal Year									
	2017	2016	(as restated) 2015	2014	2013	2012	(as restated) 2011	2010	2009	2008
<b>General Fund</b>										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,414	\$ 4,483
Unreserved	-	-	-	-	-	-	-	342,498	730,555	735,839
Nonspendable	157,023	139,181	123,378	25,515	41,593	98,617	-	-	-	-
Restricted	-	-	-	-	-	190,681	1,577,223	-	-	-
Committed	3,761,124	4,076,011	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	1,345,041	-	-	-
Unassigned	9,035,883	4,676,717	4,037,235	2,178,928	738,275	1,043,176	698,391	-	-	-
<b>Total General Fund</b>	<u>12,954,030</u>	<u>8,891,909</u>	<u>4,160,613</u>	<u>2,204,443</u>	<u>779,868</u>	<u>1,332,474</u>	<u>3,620,655</u>	<u>342,498</u>	<u>771,969</u>	<u>740,322</u>
<b>All Other Governmental Funds</b>										
Reserved	-	-	-	-	-	-	-	-	-	-
Unreserved										
Special Revenue Funds	-	-	-	-	-	-	-	4,007,906	4,821,080	4,296,812
Capital Projects Funds	-	-	-	-	-	-	-	(12,984)	158,251	91,947
Debt Service Funds	-	-	-	-	-	-	-	91,138	193,693	550,682
Nonspendable	-	-	-	-	250,000	-	-	-	-	-
Restricted	5,854,839	12,814,908	15,785,120	6,356,203	16,339,191	1,574,894	1,345,929	-	-	-
Committed	2,955,845	2,489,140	348,076	427,865	299,239	385,496	255,605	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned (deficit)	(437,055)	(287,536)	282,855	(75,586)	-	-	(27,062)	-	-	-
<b>Total All Other Governmental Funds</b>	<u>8,373,629</u>	<u>15,016,512</u>	<u>16,416,051</u>	<u>6,708,482</u>	<u>16,888,430</u>	<u>1,960,390</u>	<u>1,574,472</u>	<u>4,086,060</u>	<u>5,173,024</u>	<u>4,939,441</u>
<b>Total Governmental Funds</b>	<u>\$ 21,327,659</u>	<u>\$ 23,908,421</u>	<u>\$ 20,576,664</u>	<u>\$ 8,912,925</u>	<u>\$ 17,668,298</u>	<u>\$ 3,292,864</u>	<u>\$ 5,195,127</u>	<u>\$ 4,428,558</u>	<u>\$ 5,944,993</u>	<u>\$ 5,679,763</u>

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

	Fiscal Year									
	2017	2016	(as restated) 2015	2014	2013	2012	2011	2010	2009	2008
<b>Revenues</b>										
Taxes	\$ 17,071,793	\$ 16,042,423	\$ 14,237,675	\$ 14,291,815	\$ 14,029,560	\$ 14,462,247	\$ 14,643,134	\$ 14,987,054	\$ 14,707,297	\$ 13,682,151
Licenses and Permits	28,674,704	27,465,856	26,245,715	25,353,330	25,979,427	26,175,310	25,362,255	25,429,776	26,550,329	26,357,476
Intergovernmental	10,616,507	9,862,919	10,022,321	13,142,623	12,897,498	14,510,735	13,684,242	12,166,647	11,691,463	12,063,637
Charges for Services	6,028,757	7,863,434	5,409,631	5,936,837	6,063,670	6,063,323	5,394,348	5,227,073	4,744,058	4,527,680
Fines and Forfeitures	309,267	304,473	271,735	414,625	367,591	439,189	558,465	746,322	712,072	669,260
Investment Earnings	222,575	165,050	3,932	4,287	96,889	23,084	47,244	24,439	99,619	270,519
Miscellaneous	1,189,471	1,556,718	1,474,692	1,045,589	1,845,656	2,449,022	2,004,920	1,351,353	1,557,868	2,382,312
<b>Total Revenues</b>	<b>64,113,074</b>	<b>63,260,873</b>	<b>57,665,701</b>	<b>60,189,106</b>	<b>61,280,291</b>	<b>64,122,910</b>	<b>61,694,608</b>	<b>59,932,664</b>	<b>60,062,706</b>	<b>59,953,035</b>
<b>Expenditures</b>										
General Government	5,846,967	6,583,585	4,405,392	8,990,541	3,982,552	3,618,888	4,315,649	3,785,714	3,783,523	3,554,133
Police	14,333,931	13,393,476	13,537,543	13,945,665	14,207,005	15,588,778	15,913,878	15,593,494	14,886,861	15,013,636
Fire	13,333,336	12,897,000	13,190,569	12,745,412	13,203,841	13,842,762	13,630,059	13,812,934	13,306,319	13,959,222
Public Improvements	6,752,337	5,863,844	12,877,279	8,816,579	5,994,547	5,891,702	6,268,883	6,514,905	6,690,503	5,644,983
Recreation	-	-	-	-	437,483	475,601	455,212	504,309	2,533,103	2,347,048
Community Development (includes recreation in 2014)	9,856,641	9,397,002	9,162,917	10,864,968	13,051,903	14,104,562	13,075,265	12,175,797	10,138,570	9,771,182
Parking Garage	868,353	774,460	738,147	731,835	780,016	743,506	865,947	732,362	701,986	747,677
Debt Service										
Principal	12,233,087	3,103,572	16,910,676	2,771,777	3,510,165	3,682,521	3,131,379	2,980,841	3,516,517	2,918,585
Interest and Other Charges	1,788,432	2,116,885	1,968,945	1,754,969	2,273,447	1,223,546	1,503,485	1,679,854	2,054,516	1,829,031
Bond Issuance Costs	252,629	-	852,255	-	-	-	59,623	-	-	-
Capital Outlay	13,487,402	5,209,330	1,760,569	8,135,571	5,485,409	5,847,540	4,300,102	4,982,528	6,715,050	4,159,916
<b>Total Expenditures</b>	<b>78,753,115</b>	<b>59,339,154</b>	<b>75,404,292</b>	<b>68,757,317</b>	<b>62,926,368</b>	<b>65,019,406</b>	<b>63,519,482</b>	<b>62,762,738</b>	<b>64,326,948</b>	<b>59,945,413</b>
Excess (Deficit) of Revenues Over Expenditures	(14,640,041)	3,921,719	(17,738,591)	(8,568,211)	(1,646,077)	(896,496)	(1,824,874)	(2,830,074)	(4,264,242)	7,622
<b>Other Financing Sources (Uses)</b>										
Proceeds From Issuance of Debt	9,185,000	4,000,000	15,070,295	-	-	-	2,806,827	-	4,509,181	-
Proceeds From Bond Refinancing	-	-	14,524,705	-	-	-	315,000	-	-	-
Premiums on the Issuance of Debt	-	-	230,696	-	-	-	-	-	-	-
Payment to Refunded Lease Escrow Agent	-	-	-	-	-	-	(303,694)	-	-	-
Inception of Capital Leases	3,791,165	-	-	-	16,040,000	-	-	-	-	-
Transfers In	6,743,730	3,168,184	799,305	1,387,729	6,009,757	4,090,194	3,565,394	6,028,123	6,063,518	5,377,180
Transfer Out	(7,802,207)	(4,533,184)	(1,909,786)	(2,361,142)	(6,066,893)	(5,101,478)	(3,865,395)	(6,228,123)	(6,747,200)	(5,881,142)
Lending	-	(4,000,000)	-	-	-	-	-	-	-	-
Proceeds From Short-term Debt	-	-	-	-	-	-	-	1,040,563	75,419	427,747
Proceeds from Sale of Assets	141,591	775,038	299,127	33,684	141,092	5,517	13,647	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>12,059,279</b>	<b>(589,962)</b>	<b>29,014,342</b>	<b>(939,729)</b>	<b>16,123,956</b>	<b>(1,005,767)</b>	<b>2,531,779</b>	<b>840,563</b>	<b>3,900,918</b>	<b>(76,215)</b>
<b>Special Item</b>	-	-	-	(17,000)	(102,445)	-	-	-	-	-
<b>Restatement</b>	-	-	387,988	-	-	-	-	-	-	-
Increase (Decrease) in Fund Balance	<u>\$ (2,580,762)</u>	<u>\$ 3,331,757</u>	<u>\$ 11,663,739</u>	<u>\$ (9,524,940)</u>	<u>\$ 14,375,434</u>	<u>\$ (1,902,263)</u>	<u>\$ 706,905</u>	<u>\$ (1,989,511)</u>	<u>\$ (363,324)</u>	<u>\$ (68,593)</u>
Debt Service as a Percentage of Non-Capital Expenditures	<u>21.48%</u>	<u>9.74%</u>	<u>27.06%</u>	<u>8.03%</u>	<u>10.02%</u>	<u>8.11%</u>	<u>7.81%</u>	<u>8.07%</u>	<u>9.67%</u>	<u>8.51%</u>

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

<b>Fiscal Year</b>	<b>Total Gross Taxable Wages</b>	<b>Total Withholding Fees</b>	<b>Total Direct Rate</b>
2017	\$ 1,047,293,224	\$ 25,658,684	0.0245%
2016	\$ 1,010,486,122	\$ 24,756,910	0.0245%
2015	\$ 952,288,327	\$ 23,331,064	0.0245%
2014	\$ 940,233,510	\$ 23,035,721	0.0245%
2013	\$ 949,297,388	\$ 23,257,786	0.0245%
2012	\$ 910,575,680	\$ 22,764,392	0.0250%
2011	\$ 903,823,920	\$ 22,595,598	0.0250%
2010	\$ 914,009,160	\$ 22,850,229	0.0250%
2009	\$ 947,889,880	\$ 23,697,247	0.0250%
2008	\$ 931,502,360	\$ 23,287,559	0.0250%

**Source:** City of Covington Finance Department

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

<b>Taxpayer</b>	
<b>2017</b>	<b>2008</b>
Atkins & Pearce Manufacturing	A.C. Nielsen
Club Chef	Atkins & Pearce Manufacturing
Commonwealth of Kentucky	Club Chef
Covington Board of Education	Commonwealth of Kentucky
CTI- Clinical Trial Services	Covington Board of Education
Diocese of Covington Board of Education	Fidelity Investments
Fidelity Investments	Internal Revenue Service
Internal Revenue Service	No. Ky. Mental Health and Retardation Board
Kenton County Fiscal Court	Omnicare
St. Elizabeth Hospital	St. Elizabeth Hospital

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

**Source:** City of Covington Finance Department

**Schedule 7**  
**City of Covington, Kentucky**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Curent and Past Nine Fiscal Years**

<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>
2017	\$ 2,043,987	\$ 137,040	\$ 77,985	\$ 2,103,042	0.3270
2016	\$ 2,106,871	\$ 138,635	\$ 78,889	\$ 2,166,617	0.3130
2015	\$ 2,077,290	\$ 130,602	\$ 77,448	\$ 2,130,444	0.3130
2014	\$ 1,962,172	\$ 139,733	\$ 74,707	\$ 2,098,172	0.3045
2013	\$ 1,906,233	\$ 150,542	\$ 72,839	\$ 1,983,936	0.3045
2012	\$ 2,019,671	\$ 156,875	\$ 65,087	\$ 2,111,459	0.2995
2011	\$ 2,027,907	\$ 168,468	\$ 61,769	\$ 2,134,606	0.2995
2010	\$ 2,014,385	\$ 159,294	\$ 62,311	\$ 2,111,368	0.2995
2009	\$ 1,897,368	\$ 217,242	\$ 59,898	\$ 2,054,712	0.2995
2008	\$ 1,861,435	\$ 187,585	\$ 61,243	\$ 1,987,777	0.2995

**Notes:** Property in Covington is reassessed once every four years. City property was reassessed in 2015. The next reassessment will occur in 2019. The reassessment is conducted by the Kenton County Property Value Administrator. The property is assessed at 100% of value.

Values are stated in thousands of dollars

Tax rates are per \$100 of assessed value.

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

Fiscal Year	City Direct Rate	School Districts					Totals	
		Covington Independent	Kenton County	County	State	Other	Covington Schools Area	Kenton County Schools Area
2017	0.3130	1.099	0.621	0.1480	0.122	0.1715	1.8535	1.3755
2016	0.3130	1.099	0.621	0.1480	0.122	0.1715	1.8535	1.3755
2015	0.3130	1.111	0.609	0.1480	0.122	0.1713	1.8653	1.3633
2014	0.3045	1.132	0.591	0.1480	0.122	0.1713	1.8778	1.3368
2013	0.3045	1.153	0.557	0.1480	0.122	0.1713	1.8988	1.3028
2012	0.2995	1.117	0.557	0.1480	0.122	0.1720	1.8585	1.2985
2011	0.2995	1.056	0.557	0.1480	0.122	0.1740	1.7995	1.3005
2010	0.2995	1.026	0.558	0.1480	0.122	0.1650	1.7605	1.2925
2009	0.2995	0.989	0.558	0.1420	0.122	0.1530	1.7055	1.2745
2008	0.2924	0.961	0.564	0.1420	0.124	0.1488	1.6682	1.2712

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

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

Schedule 9  
City of Covington, Kentucky  
Principal Real Property Tax Payers  
Current and Past Nine Fiscal Years

Taxpayer	2017		Percentage of Total City Taxable Assessed Value		2016		Percentage of Total City Taxable Assessed Value		2015		Percentage of Total City Taxable Assessed Value		2014		Percentage of Total City Taxable Assessed Value		2013		Percentage of Total City Taxable Assessed Value	
	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank
Fidelity Properties Inc	\$ 184,387,500	1	6.56%		\$ 184,246,829	1	6.56%		\$ 184,387,500	1	6.85%		\$ 184,387,500	1	6.85%		\$ 184,387,500	1	6.85%	
ARCP OFC Covington LLC	82,625,000	2	2.94%		82,625,000	2	2.94%		-		0.00%		-		0.00%		-		0.00%	
CPX-Rivercenter Development Corp	76,991,700	3	2.74%		76,340,000	3	2.72%		82,842,400	2	3.08%		82,844,400	2	3.08%		82,844,400	2	3.08%	
EHP Rivercenter Landmark	33,578,000	4	1.19%		33,578,000	4	1.19%		33,578,000	3	1.25%		33,578,000	3	1.25%		33,578,000	3	1.25%	
Scott Street Land Co. LLLP	-		0.00%		-		0.00%		32,965,500	4	1.23%		-		0.00%		-		0.00%	
OH-16 FO Cincinnati	21,783,300	5	0.78%		21,783,300	5	0.78%		-		0.00%		-		0.00%		-		0.00%	
CIP II Buckeye Hotel	-		0.00%		-		0.00%		15,174,000	5	0.56%		15,174,000	4	0.56%		13,947,100	5	0.52%	
Scott Street Land Co. Inc	-		0.00%		-		0.00%		14,960,900	6	0.56%		14,960,900	5	0.56%		14,960,900	4	0.56%	
Northern Kentucky Assisted Living LLC	18,000,000	6	0.64%		18,000,000	6	0.64%		-		0.00%		-		0.00%		-		0.00%	
J & S Latonia Centre Ky LLC	12,454,000	7	0.44%		10,482,000	8	0.37%		12,314,000	7	0.46%		12,314,000	6	0.46%		12,314,000	6	0.46%	
Atkins & Pearce Manufacturing	11,460,000	8	0.41%		11,460,000	7	0.41%		11,460,000	8	0.43%		11,460,000	7	0.43%		11,460,000	7	0.43%	
FMR Kentucky I LLC	9,550,000	9	0.34%		9,550,000	9	0.34%		9,550,000	9	0.35%		11,184,000	8	0.42%		11,184,000	8	0.42%	
Trustees Latonia Plaza KY LLC	7,916,000	10	0.28%		-		0.00%		7,916,000	10	0.29%		7,916,000	9	0.29%		7,916,000	9	0.29%	
Truss Latonia Plaza KY LLC	-		0.00%		6,824,500	10	0.24%		-		0.00%		6,824,500	10	0.25%		6,824,500	10	0.25%	
<b>Total</b>	<b>\$ 458,745,500</b>		<b>16.32%</b>		<b>\$ 454,889,629</b>		<b>16.19%</b>		<b>\$ 405,148,300</b>		<b>15.06%</b>		<b>\$ 380,643,300</b>		<b>14.15%</b>		<b>\$ 379,416,400</b>		<b>14.11%</b>	

Taxpayer	2012		Percentage of Total City Taxable Assessed Value		2011		Percentage of Total City Taxable Assessed Value		2010		Percentage of Total City Taxable Assessed Value		2009		Percentage of Total City Taxable Assessed Value		2008		Percentage of Total City Taxable Assessed Value	
	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank
Fidelity Properties Inc	\$ 195,571,500	1	9.16%		\$ 193,937,500	1	9.09%		\$ 195,571,500	1	9.41%		\$ 86,021,500	2	4.53%		86,021,500	2	4.33%	
CPX-Rivercenter Development Corp	95,878,100	2	4.49%		127,956,600	2	5.99%		140,213,500	2	6.75%		140,183,400	1	7.38%		106,605,400	1	5.36%	
EHP Rivercenter Landmark	33,578,000	3	1.57%		-		0.00%		-		0.00%		-		0.00%		-		0.00%	
CIP II Buckeye Hotel	13,947,100	5	0.65%		-		0.00%		-		0.00%		-		0.00%		-		0.00%	
Scott Street Land Co. Inc	14,960,900	4	0.70%		-		0.00%		-		0.00%		14,960,900	3	0.79%		14,960,900	4	0.75%	
J & S Latonia Centre Ky LLC	10,482,000	7	0.49%		14,960,900	3	0.70%		14,960,900	3	0.72%		10,482,000	6	0.55%		10,482,000	6	0.53%	
Atkins & Pearce Manufacturing	11,460,000	6	0.54%		10,482,000	6	0.49%		10,482,000	6	0.50%		10,900,000	5	5.70%		10,000,000	7	0.50%	
FMR Kentucky I LLC	-		0.00%		11,460,000	5	0.54%		10,900,000	5	0.52%		-		0.00%		-		0.00%	
Trustees Latonia Plaza KY LLC	6,824,500	9	0.31%		-		0.00%		-		0.00%		-		0.00%		-		0.00%	
Anchor Cogdell Covington LLC	7,026,000	8	0.49%		6,824,500	8	0.32%		6,565,000	9	0.32%		-		0.00%		-		0.00%	
OZRE Lodging I LLC	-		0.00%		-		0.00%		-		0.00%		13,947,100	4	0.73%		13,947,100	5	0.70%	
Packaging Unlimited	-		0.00%		13,947,100	4	0.65%		13,947,100	4	0.67%		-		0.00%		-		0.00%	
CCO LLC	3,812,500	10	0.32%		8,691,500	7	0.41%		8,691,500	7	0.42%		-		0.00%		-		0.00%	
Truss Realty	-		0.00%		6,812,500	9	0.32%		6,812,500	8	0.33%		6,550,000	9	0.35%		6,550,000	10	0.33%	
Castilinni Company	-		0.00%		6,565,000	10	0.31%		6,550,000	10	0.32%		6,812,500	7	0.36%		6,812,500	8	0.34%	
Scottenstein Trust	-		0.00%		-		0.00%		-		0.00%		6,565,000	8	0.35%		6,565,000	9	0.33%	
Attria Highland Crossing	-		0.00%		-		0.00%		-		0.00%		6,480,000	10	0.34%		-		0.00%	
Eagle Hospitality	-		0.00%		-		0.00%		-		0.00%		-		0.00%		33,578,000	3	1.69%	
<b>Total</b>	<b>\$ 393,540,600</b>		<b>18.72%</b>		<b>\$ 401,636,600</b>		<b>18.82%</b>		<b>\$ 414,694,000</b>		<b>19.96%</b>		<b>\$ 302,902,400</b>		<b>21.08%</b>		<b>\$ 295,522,400</b>		<b>14.86%</b>	

Source: City of Covington Finance Department

Schedule 10  
City of Covington, Kentucky  
Property Tax Levies and Collections  
Current and Past Nine Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2017	\$ 7,062,522	\$ 6,673,927	94.50%	N/A	\$ 6,673,927	94.50%
2016	\$ 7,064,377	\$ 6,922,314	97.99%	\$ 27,492	\$ 6,949,806	98.38%
2015	\$ 6,924,630	\$ 6,423,314	92.76%	\$ 434,775	\$ 6,858,089	99.04%
2014	\$ 6,490,788	\$ 5,843,739	90.03%	\$ 298,825	\$ 6,142,564	94.64%
2013	\$ 6,376,341	\$ 6,076,779	95.30%	\$ 258,788	\$ 6,335,567	99.36%
2012	\$ 6,287,872	\$ 6,042,731	96.10%	\$ 174,609	\$ 6,217,340	98.88%
2011	\$ 6,328,051	\$ 6,145,818	97.12%	\$ 141,934	\$ 6,287,752	99.36%
2010	\$ 6,411,125	\$ 6,146,928	95.88%	\$ 119,209	\$ 6,266,137	97.74%
2009	\$ 6,330,592	\$ 6,099,103	96.34%	\$ 89,258	\$ 6,188,361	97.75%
2008	\$ 6,159,153	\$ 5,989,960	97.25%	\$ 64,383	\$ 6,054,343	98.30%

Source: City of Covington Finance Department

**Schedule 11**  
**City of Covington, Kentucky**  
**Ratios of Outstanding Debt by Type**  
**Current and Past Nine Fiscal Years**  
*(dollars in thousands, except per capita)*

<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>
2017	\$ 40,540	\$ 17,791	\$ 58,331	6.45%	\$ 1,430
2016	\$ 35,952	\$ 21,648	\$ 57,600	6.84%	\$ 1,405
2015	\$ 33,584	\$ 23,131	\$ 56,715	6.79%	\$ 1,385
2014	\$ 15,826	\$ 27,974	\$ 43,800	5.25%	\$ 1,076
2013	\$ 16,864	\$ 29,708	\$ 46,572	5.55%	\$ 1,137
2012	\$ 18,961	\$ 15,081	\$ 34,042	4.08%	\$ 834
2011	\$ 21,289	\$ 16,248	\$ 37,537	4.62%	\$ 924
2010	\$ 20,811	\$ 17,663	\$ 38,474	4.16%	\$ 893
2009	\$ 21,622	\$ 18,782	\$ 40,404	4.35%	\$ 935
2008	\$ 23,790	\$ 15,271	\$ 39,061	3.62%	\$ 901

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

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

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

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Percentage of Actual Taxable Value of Property</b>	<b>Per Capita</b>	<b>Debt Service Payments Per Capita</b>
2017	\$ 40,540	1.93%	\$ 993.70	\$ 343.69
2016	\$ 35,952	0.16%	\$ 813.56	\$ 126.72
2015	\$ 33,584	0.16%	\$ 814.62	\$ 126.88
2014	\$ 15,826	0.75%	\$ 364.91	\$ 112.93
2013	\$ 16,865	0.85%	\$ 411.78	\$ 141.22
2012	\$ 18,961	0.90%	\$ 464.61	\$ 119.77
2011	\$ 21,289	1.00%	\$ 523.84	\$ 111.86
2010	\$ 20,811	0.99%	\$ 483.06	\$ 106.03
2009	\$ 21,622	1.05%	\$ 498.55	\$ 126.62
2008	\$ 23,790	1.20%	\$ 548.54	\$ 107.16
2007	\$ 25,888	1.32%	\$ 596.91	\$ 99.74

**Source:** City of Covington Finance Department

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

**Legal Debt Margin Calculation for Fiscal Year 2017**

Assessed value	<u>\$ 2,103,042</u>
Debt limit (10% of assessed value)	\$ 210,304
Debt applicable to limit:	
General Obligation	<u>\$ 40,540</u>
Total debt applicable to limit	<u>\$ 40,540</u>
Legal debt margin	<u>\$ 169,764</u>

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Debt limit	\$ 210,304	\$ 216,662	\$ 213,044	\$ 209,817	\$ 198,394	\$ 211,146	\$ 213,461	\$ 207,746	\$ 205,471	\$ 198,778
Total net debt applicable to limit	40,540	35,952	33,584	15,826	16,865	18,961	21,289	20,811	21,622	23,790
Legal debt margin	<u>\$ 169,764</u>	<u>\$ 180,710</u>	<u>\$ 179,460</u>	<u>\$ 193,991</u>	<u>\$ 181,529</u>	<u>\$ 192,185</u>	<u>\$ 192,172</u>	<u>\$ 186,935</u>	<u>\$ 183,849</u>	<u>\$ 174,988</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>19.28%</u>	<u>16.59%</u>	<u>15.76%</u>	<u>7.54%</u>	<u>8.50%</u>	<u>8.98%</u>	<u>9.97%</u>	<u>10.02%</u>	<u>10.52%</u>	<u>11.97%</u>

Source: City of Covington Finance Department

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

<b>Fiscal 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 (d)</b>	<b>School Enrollment (b)</b>	<b>Unemployment Rate (c)</b>
2017	40,797	903,694	22,151	33.1	3,799	5.3%
2016	40,997	842,406	20,548	35.5	3,771	4.4%
2015	40,944	834,667	20,563	33.1	4,165	5.1%
2014	40,713	834,667	20,563	33.1	4,165	6.5%
2013	40,956	839,270	20,492	35.7	4,053	8.2%
2012	40,811	834,667	20,492	35.7	3,572	8.9%
2011	40,640	813,003	20,005	34.6	3,914	9.7%
2010	43,082	924,927	21,469	35.9	4,066	10.2%
2009	43,235	928,212	21,469	35.9	4,002	10.4%
2008	43,370	1,077,787	24,581	33.1	3,958	5.6%

**Sources:**

- (a) City Data Moving Information & Guides - [movingideas.org](http://movingideas.org)  
 U. S. Department of the Census (2010 Census) & (1996 Census)  
 2009 Data U. S. Census Bureau 2006-2008 American Community Survey 3-Year Estimate  
 2013 U.S. Census
- (b) Kentucky Department of Education
- (c) Kentucky Cabinet for Workforce Development
- (d) City of Covington Economic Dashboard

Schedule 15  
City of Covington, Kentucky  
Principal Employers  
Current and Past Nine Fiscal Years

Employer	2017			2016			2015			2014			2013		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Internal Revenue Service	4,088	1	15.25%	4,046	1	15.10%	4,500	1	16.79%	4,500	1	16.79%	4,500	1	16.79%
Fidelity Investments	4,028	2	15.03%	3,923	2	14.64%	3,923	2	14.64%	4,100	2	15.30%	4,100	2	15.30%
Covington Board of Education	940	3	3.51%	914	4	3.41%	760	3	2.84%	925	3	3.45%	925	3	3.45%
St. Elizabeth Hospital	414	6	1.54%	445	6	1.66%	431	6	1.61%	800	4	2.99%	800	4	2.99%
State of Kentucky	487	5	1.82%	561	5	2.09%	501	5	1.87%	360	5	1.34%	360	5	1.34%
CTI-Clinical Trial Services	220	10	0.82%												
Club Chef	742	4	2.77%	1,281	3	4.78%	659	4	2.46%	590	6	2.20%	320	6	1.19%
Rosedale Manor				414	7	1.54%	408	7	1.52%	463	7	1.73%	310	7	1.16%
No. KY MH-MR Board				89	9	0.33%	173	9	0.65%	162	8	0.60%	280	8	1.04%
Atkins & Pearce Mftg	233	9	0.87%	329	8	1.23%	220	8	0.82%	225	9	0.84%	265	9	0.99%
Kenton County Fiscal Court	351	8	1.31%												
Diocese of Covington Bd of Ed	398	7	1.49%												
Ashland Inc			0.00%	81	10	0.30%	94	10	0.35%	100	10	0.37%	85	10	0.32%
<b>Total</b>	<b>11,901</b>		<b>44.41%</b>	<b>12,083</b>		<b>45.09%</b>	<b>11,669</b>		<b>43.54%</b>	<b>12,225</b>		<b>45.62%</b>	<b>11,945</b>		<b>44.57%</b>

Employer	2012			2011			2010			2009			2008		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Internal Revenue Service	4,500	1	16.79%	4,500	1	20.74%	4,500	1	20.74%	3,500	2	17.97%	4,500	2	22.58%
Fidelity Investments	4,100	2	15.30%	4,100	2	18.89%	3,900	2	17.97%	4,900	1	20.74%	4,900	1	20.74%
Covington Board of Education	925	3	3.45%	925	3	4.26%	925	3	4.26%	925	3	4.26%	925	3	4.26%
St. Elizabeth Hospital	800	4	2.99%	800	4	3.69%	800	4	3.69%	800	4	3.69%	800	4	3.69%
State of Kentucky	360	5	1.34%	360	6	1.66%	360	6	1.66%	360	6	1.66%	360	6	1.66%
Ommicare	325	6	1.21%	325	7	1.50%	325	7	1.50%	325	7	1.50%	325	7	1.50%
Club Chef	320	7	1.19%	300	8	1.38%	300	8	1.38%	300	8	1.38%	300	8	1.38%
Rosedale Manor	310	8	1.16%	280	9	1.29%	280	9	1.29%						
No. KY MH-MR Board	280	9	1.04%	225	10	1.04%	225	10	1.04%	280	9	1.29%	280	9	1.29%
Atkins & Pearce Mftg	265	10	0.99%							225	10	1.04%	225	10	1.04%
A.C. Nielsen				400	5	1.84%	400	5	1.84%	400	5	1.84%	400	5	1.84%
<b>Total</b>	<b>12,185</b>		<b>45.47%</b>	<b>12,215</b>		<b>56.29%</b>	<b>12,015</b>		<b>55.37%</b>	<b>12,015</b>		<b>55.37%</b>	<b>13,015</b>		<b>59.98%</b>

Source: City of Covington Finance Department

**Schedule 16**  
**City of Covington, Kentucky**  
**Full-Time-Equivalent City Government Employees by Function/Program**  
**Current and Past Nine Fiscal Years**

<u>Function/Program</u>	<u>Full-time-Equivalent Employees as of June 30</u>									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Government										
Management Services	16	16	16	14	10	16	17	16	16	16
Finance	7	9	9	10	10	11	13	13	14	14
Economic Development	12	12	8	10	12	7	7	7	7	7
Code Enforcement	1	0	7	8	9	11	12	12	11	11
Housing	7	7	7	7	8	12	15	16	16	16
Police										
Officers	102	102	104	106	104	110	112	116	116	116
Civilians	7	7	7	9	9	24	28	31	31	31
Fire										
Firefighters and Officers	114	114	108	113	121	118	118	118	118	118
Civilians	0	0	0	1	1	1	1	1	1	1
Other										
Public Improvements	30	30	47	47	47	47	47	51	35	35
Engineering	0	0	0	0	1	4	4	4	4	4
Parks and Recreation	19	19	0	1	1	2	2	2	20	20
<b>Total</b>	<b>315</b>	<b>316</b>	<b>313</b>	<b>326</b>	<b>333</b>	<b>363</b>	<b>376</b>	<b>387</b>	<b>389</b>	<b>389</b>

**Source:** City of Covington Finance Department

Schedule 17  
City of Covington, Kentucky  
Operating Indicators by Function/Program  
Current and Past Nine Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Police										
Physical arrests	6,395	5,182	4,663	4,678	4,909	5,420	5,763	5,899	5,248	5,321
Parking violations	11,637	13,333	13,847	10,952	11,133	15,891	14,520	13,926	15,873	14,230
Traffic violation	2,925	5,097	5,979	5,117	4,990	4,991	5,149	5,796	5,116	5,856
Fire										
Fire responses	2,413	2,620	3,930	3,126	2,798	2,716	2,731	2,657	2,818	3,658
Ambulance runs	9,449	9,604	9,603	9,304	9,106	9,523	9,112	8,595	10,542	11,549
Inspections	2,465	2,310	1,481	1,963	1,839	1,853	2,058	1,966	2,212	2,440

Sources: City of Covington Police and Fire Record Management System

Schedule 18  
City of Covington, Kentucky  
Capital Assets Statistics by Function/Program  
Current and Past Nine Fiscal Years

Function/Program	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Police</b>										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	118	126	126	128	83	83	83	83	83	83
<b>Fire stations</b>	5	5	5	5	5	5	5	5	5	5
<b>Other Public Works</b>										
Streets (miles)	235	235	235	191	191	120	120	120	120	120
Streetlights	3,785	3,785	3,785	3,785	3,785	3,246	3,246	3,246	3,246	3,246
Miles of Sidewalks	1,545	1,545	1,545	1,545						
<b>Parks and recreation</b>										
Parks	24	24	24	22						
Acreage	859	859	859	850	850	850	850	850	850	850
Playgrounds	13	13	13	28	28	28	28	28	28	28
Baseball/softball diamonds	9	7	7	9	9	10	10	10	10	10
Soccer/football fields	2	2	2	2	4	5	5	5	5	5
Swimming pools	2	2	2	2	3	4	4	4	4	4
Water Park	1	1	1	1						
Golf Courses	1	1	1	1						

**Source:** City of Covington Police Department  
City of Covington Fire Department  
City of Covington Department of Public Improvements

**Schedule 19**  
**City of Covington, Kentucky**  
**Direct and Overlapping Governmental Activities Debt**  
**June 30, 2017**  
**(amounts in thousands)**

<b>Governmental Unit</b>	<b>Debt Outstanding</b>	<b>Estimated Percentage Applicable (3)</b>	<b>Estimated Share of Overlapping Debt</b>
Kenton County	\$ 61,401 (1)	24.73%	\$ 15,184
Covington Independent School District	<u>19,818 (2)</u>	100.00%	<u>19,818</u>
Subtotal, overlapping debt	<u><u>\$ 81,219</u></u>		<u><u>35,002</u></u>
City of Covington direct debt			40,540
Total direct and overlapping			<u><u>\$ 75,542</u></u>

Source: Kentucky local Debt Report

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

- (1) Kenton County Treasurer's office
- (2) Covington Independent School District, Finance Department
- (3) The percentage of overlapping debt applicable to the City of Covington is estimated using the percentage of Covington residents in each of the overlapping districts by the 2010 U.S. Census