

CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2008

Prepared By:
Robert J. Due
Director of Finance



**CITY OF COVINGTON, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2008**

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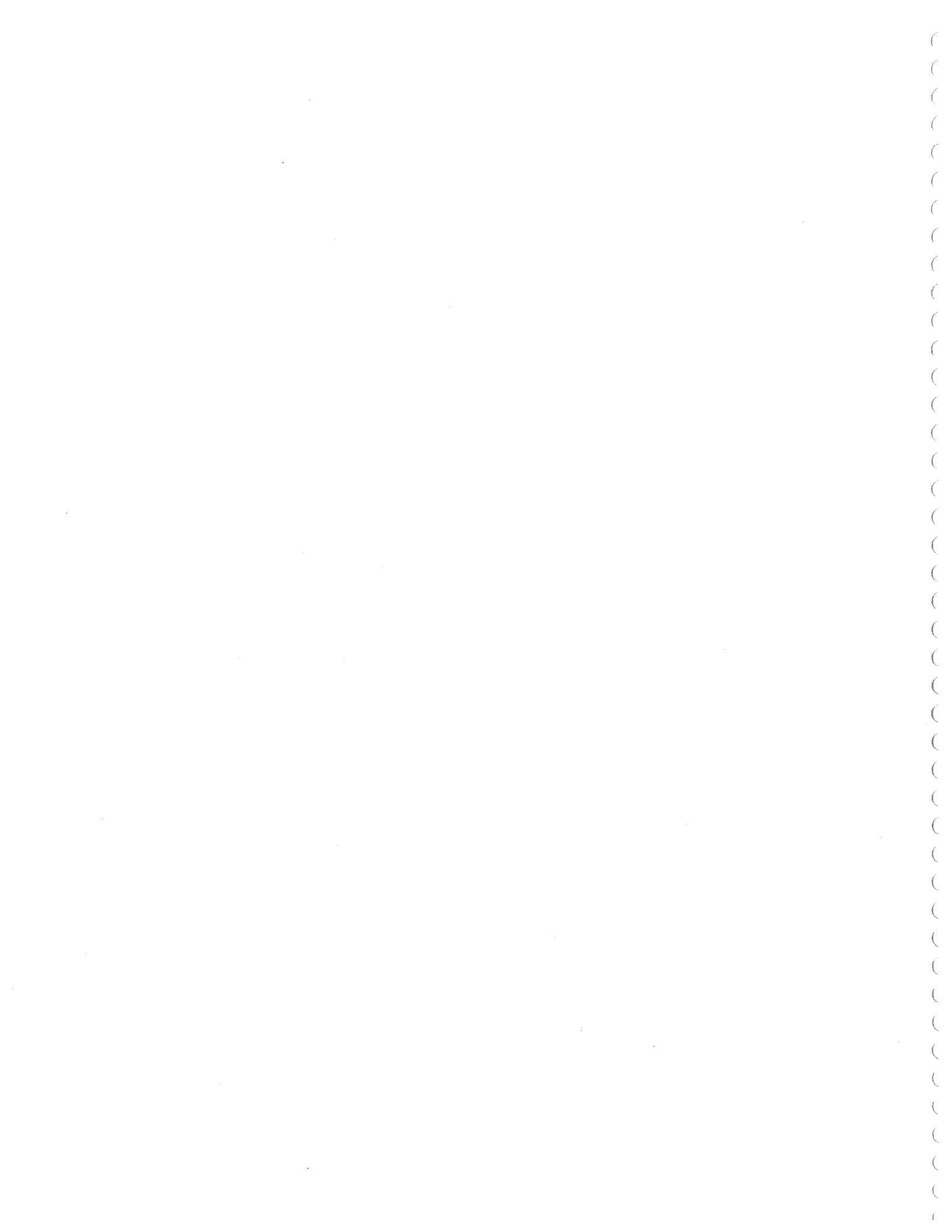
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INTRODUCTORY SECTION





OFFICE OF THE CITY MANAGER

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Covington, Kentucky 41011

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City Manager
jfossett@covingtonky.gov

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December 22, 2008

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

RE: Formal Transmittal of the CAFR

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Covington for the fiscal year ended June 30, 2008.

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

The City of Covington's financial statements have been audited by Von Lehman & Company, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Covington for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion

that the City of Covington's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Profile of the Government

The City of Covington, founded in 1815, is located in the northern most part of the state, situated in Kenton County and is part of the Northern Kentucky Region, which ranks as one of the top growth areas in Kentucky. The City of Covington currently occupies a land area of 13.1 square miles and serves a population of 43,370. The City of Covington is empowered to levy numerous taxes and fees. Its major revenue sources include an occupational license tax levied on gross wages and net profits, insurance premiums tax and a property tax on both real and personal properties. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing body.

The City of Covington operates under the City Manager form of government. Legislative authority is vested in the City Board of Commissioners, consisting of the Mayor and four City Commission members. The Board of Commissioners is responsible for among other things, passing ordinances, adopting the budget, appointing members to various boards, and it approves the hiring of all full time employees. The City Manager reports directly to the Board of Commissioners and is responsible for carrying out policies and ordinances of the City Board of Commissioners and is responsible for the development of short and long range planning, capital improvement programs, and running the day-to-day operations of the city. The City Board of Commissioners is elected on a non-partisan basis. The Mayor serves a four year term and the City Commissioners serve two year terms. The next election for the Mayor and City Commissioners will be held in November of 2008 with the Mayor and Board of Commissioners to take office on January 1, 2009.

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

Employees' Retirement Fund and the Police and Firemen's Retirement Funds: and these activities are included in the reporting entity.

The annual budget serves as the foundation for the City of Covington's financial planning and control. Budget targets are set for each city department based on current revenue estimate contained in the five year plan adjusted for current trends. All departments of the City of Covington are required to submit budget requests for appropriation to the City Manager. The budget requests must be within budget targets. The City Manager uses these requests as the starting point for developing a proposed balanced budget. The City Manager then presents the proposed balanced budget to the City Commissioners for review. The final budget is adopted prior to July 1 of each year. The appropriated budget is prepared by fund and department (e.g., police). Department heads may make transfers of appropriations within a department with the approval of the City Manager, or his designee. The City Manager cannot make transfers of appropriations between departments without the approval of the City Commissioners. Expenditures may not legally exceed budgeted appropriations at the departmental level. Any revisions to the budget that would alter total revenues and department expenditures of any fund must be approved by the City Commissioners. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 55-57 as part of the basic financial statements for the governmental funds. For governmental funds with appropriated annual budgets other than the general fund, this comparison is presented in the governmental fund subsection of this report, which starts on page 58. Also included in the governmental fund subsection are project-length budget-to-actual comparisons for each governmental fund for which a project-length budget has been adopted (i.e., the capital projects funds).

Information Useful in Assessing the Economic Condition

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

Local economy: Covington has maintained its efforts in developing economic resources in the Greater Cincinnati/Northern Kentucky region. The consistent and persistent effort put forth by Covington's elected and appointed officials and other community leaders over the past twenty years has positioned the City for continued economic growth in the foreseeable future. The current economic downturn has had its effect on the local economy although Covington has continued to experience job growth and an increase in revenue base. The area's economy does not decline as much in downturns but does not grow as quickly in boom times as the national economy.

In October of 2007, a \$14.4 million connector road to the Fidelity Investment Campus was officially opened. The connector road will allowed the completion of a 350,000 square foot addition to the Campus at a cost of approximately \$110 million. A total of 1,500 jobs will be added by the end of 2010. 750 jobs will be filled by the end of 2008. The Northern Kentucky Chamber of Commerce has estimated an economic impact of 3,450 spin off jobs and an increase of \$23.5 million in additional household income. In November of 2008, Fidelity announced a plan to reduce its workforce by 2.9% nation

wide. The impact at the Covington is yet to be determined but the original job expansion will likely be delayed.

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

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

The City of Covington was also awarded a grant in the amount of \$600,000 from the United States Environmental Protection Agency for environmental site assessments and clean up of a centrally located business property.

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

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

In addition, more than \$60 million in residential development projects in the downtown area are nearing completion. The Ascent at Roebling Bridge which is a \$47 million, 80-unit, 21-story condominium tower designed by Daniel Libeskind is now 70% occupied. The Pulse a 64-unit, \$13 million loft condominium project in the Seminary Square neighborhood has completed its initial phase. The Views, when complete, will add 100-125 residential homes priced from \$250,000 each. In addition smaller developments of luxury apartments and commercial storefronts are being constructed throughout the Covington Arts and Technology Zone.

Cash management policies and practices. The City entered into a depository agreement, which became effective January 1, 2003 with the U.S. Bank. The pension trust fund's investment portfolio includes common stock, corporate bonds, and treasury notes. The average yield on investments, except for the pension trust fund, was 3.17%. The pension trust funds on average declined 6.91% for the same period. The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its' portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. All collateral on deposits was held either by the City, its' agent, or a financial institution's trust department in the City's name. All of the investments held by the City during the year ended June 30, 2008 are classified in the category of lowest risk as defined by the Governmental Accounting Standards Board

Risk management. During the year the City's Risk Management function continued efforts to reduce work related injuries and reducing overall risks by providing increased

training and by working with departments to help keep work environments safe. The City self-insures against liability exposures from general liability, auto liability, auto physical damage, public official liability and law enforcement liability. Claims against this fund are processed by the City Solicitor's office. Claims and legal expenses over the past ten years have averaged \$339,976 per year.

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

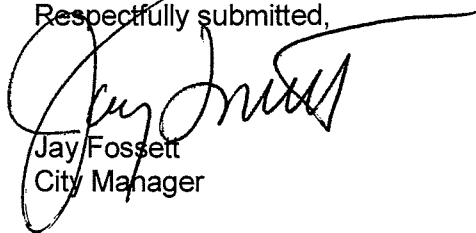
Pension and other post employment benefits: The City has two pension funds, both of which are closed to new members. All City employees are now covered under the Kentucky Retirement System. There are two remaining active employees participating in the City Employees' Retirement Fund and no active employees participating in the Police and Firemen's Retirement Fund as of June 30, 2008.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the fifteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

The preparation of this comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the Department of Finance. Each member has our sincere appreciation for the contributions made in the preparation of this report. We also acknowledge the efforts of other departments who provided information that helped to make the report far more than a presentation of numbers. Credit must also be given to the Mayor and Commissioners for their unflinching support for maintaining the highest standards of professionalism in the management of the finances of the City of Covington.

Respectfully submitted,



Jay Fossett
City Manager



Robert J. Due
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Covington
Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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



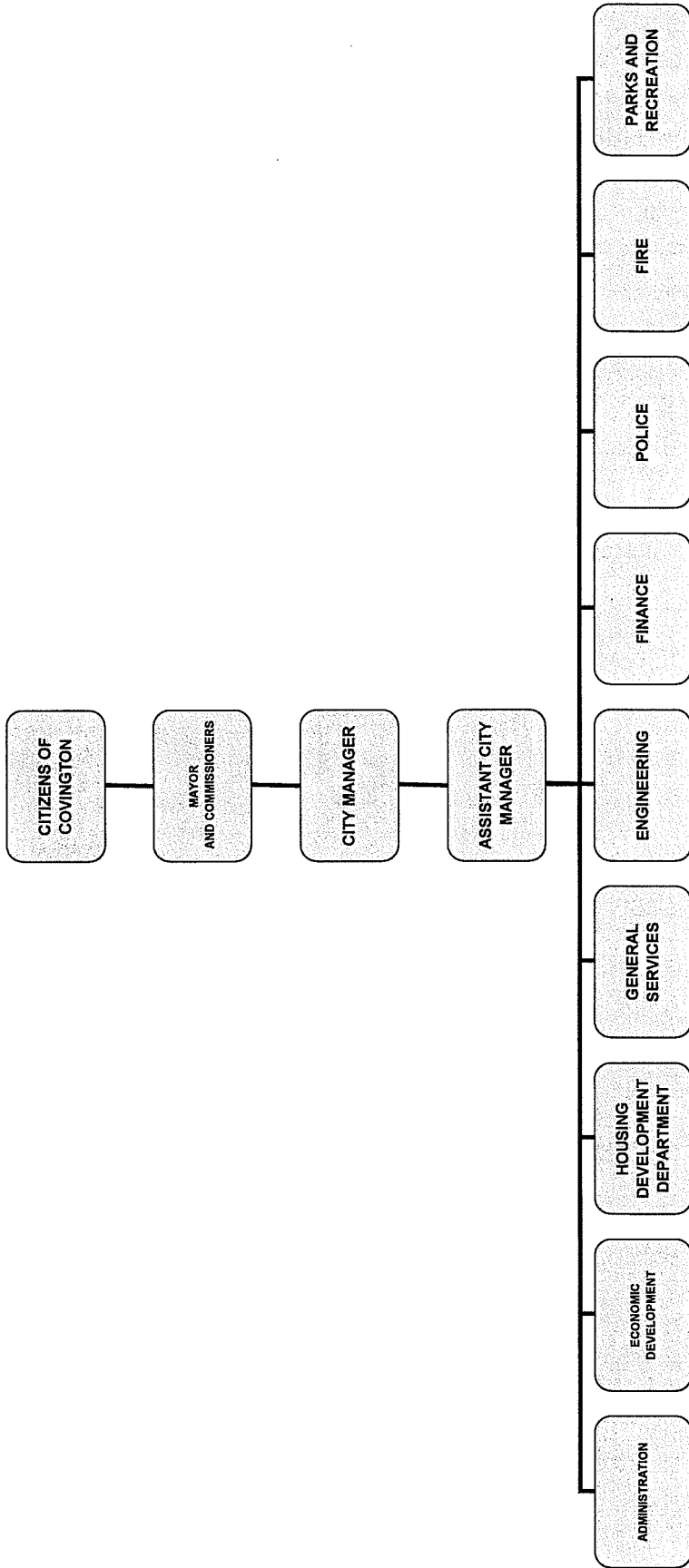
Chane S. Cox

President

Jeffrey R. Emsw

Executive Director

CITY OF COVINGTON, KENTUCKY
ORGANIZATIONAL CHART



**CITY OF COVINGTON, KENTUCKY
LIST OF PRINCIPAL OFFICIALS
June 30, 2008**

MAYOR

Irvin T. Callery

COMMISSIONERS

Gerald Bamberger

Sherry Carran

Steve Megerle

Jerry Stricker

STAFF

City Manager – John Jay Fossett

Assistant City Manager – Larry Klein

City Solicitor – Frank Warnock

City Clerk – Tracy Denham

Finance Director – Robert J. Due

Chief of Police – Lee Russo

Fire Chief – Charles Wheatley

City Engineer – Tom Logan

Housing Development Director – Aaron Wolfe-Bertling

Director of Code Enforcement – Keith Bales



INDEPENDENT AUDITORS' REPORT

Honorable Mayor
Board of Commissioners
City of Covington, Kentucky

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Covington, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Devou Properties, Inc. (a non-profit organization), the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Devou Properties, Inc. is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2008, on our consideration of the City of Covington, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The management's discussion and analysis on pages 11 through 23 and budgetary comparison schedules on pages 56 through 61 are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

VonLehman & Company Inc.

Fort Mitchell, Kentucky
December 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) of the City of Covington, Kentucky's (the City's) financial statements provides readers an overview and analysis of the City's financial position and activities for the fiscal year ended June 30, 2008. The information presented here should be read in conjunction with the City's basic financial statements which immediately follow this analysis.

USING THIS ANNUAL REPORT

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

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

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$58,488,752 (net assets), and represent an increase of \$604,453 from the prior year. This amount includes \$41,334,965 that is invested in capital assets net of related debt. Another \$550,682 is restricted for debt service and \$16,603,105 is unrestricted and available to fund the City's future obligations, activities, and projects.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$5,679,763, a decrease of \$68,593 from the previous year. Of the \$5,679,763 in combined fund balance, \$735,839 in the General Fund was unreserved, undesignated, and available. The City has a minimum reserve retention policy of a minimum of 5% of General Fund revenue. The \$735,839 in General Fund combined with the fund balance of \$1,370,264 in the Working Capital Reserve Special Revenue Fund equals \$2,106,103, or 4.7% of General Fund revenue. Last fiscal year, the City's fund balance in General Fund and Working Capital Reserve was \$1,645,584, or 3.8% of General Fund revenue.

The City's governmental activities total debt decreased \$2,979,213. Payment of principal on outstanding debt was \$2,979,213 for the year. There was no new long term debt issued during the fiscal year.

Government-Wide Financial Statements

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

The Statement of Net Assets presents information on all City assets and liabilities as of June 30, 2008. Net assets are the difference between the assets and liabilities. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. In assessing the City's condition, other factors must be considered as well, such as changes in the City's property tax base, occupational license tax base, and the condition of the City's capital assets (roads, buildings, equipment, and sidewalks) to assess the overall health of the City.

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

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

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

Fund Financial Statements

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

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

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

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

Statement of Net Assets

For the year ended June 30, 2008, net assets changed as follows:

	Governmental Activities 2008	Governmental Activities 2007	Increase (Decrease) From FYE 07
Current and other assets	\$ 29,018,317	\$ 31,743,443	\$ (2,725,126)
Capital assets	65,807,399	66,400,438	(593,039)
Other Non Current Assets	9,558,132	10,582,707	(1,024,575)
Total assets	<u>104,383,848</u>	<u>108,726,588</u>	<u>(4,342,740)</u>
Current liabilities	11,331,806	13,255,478	(1,923,672)
Non-current liabilities	34,563,290	37,586,811	(3,023,521)
Total liabilities	<u>45,895,096</u>	<u>50,842,289</u>	<u>(4,947,193)</u>
Net assets:			
Invested in capital assets, net of debt	41,334,965	39,709,313	1,625,652
Restricted	550,682	888,123	(337,441)
Unrestricted	16,603,105	17,286,863	(683,758)
Total net assets	<u>\$ 58,488,752</u>	<u>\$ 57,884,299</u>	<u>\$ 604,453</u>

The total assets of the City on June 30, 2008 were \$104.4 million, while total liabilities were \$45.9 million, resulting in net assets of \$58.5 million. The largest component of the City's net assets, \$41.3 million, or 70.6%, reflects its investment in capital assets. Unrestricted net assets which represent funds that may be used at the City's discretion decreased \$683,758. Net Assets increased \$604,453 with revenue of \$59,548,787 against expenditures of \$58,944,334.

Statement of Activities

	Governmental Activities 2008	Governmental Activities 2007	Increase (Decrease) From 2007
Revenues:			
Program revenues:			
Charges for services	\$ 5,239,308	\$ 4,827,983	\$ 411,325
Operating grants and contributions	10,823,567	8,840,224	1,983,343
Capital grants	2,050,654	1,279,884	770,770
General revenues:			
Taxes	39,102,516	38,593,011	509,505
Interest	317,416	389,885	(72,469)
Other	2,015,326	2,439,604	(424,278)
Total revenues	<u>59,548,787</u>	<u>56,370,591</u>	<u>3,178,196</u>
Expenses:			
General government	7,807,872	6,975,709	832,163
Police	15,501,195	14,873,868	627,327
Fire	14,753,208	13,595,531	1,157,677
General services	5,995,347	6,001,968	(6,621)
Recreation	2,426,639	2,350,546	76,093
Housing and economic developmen	9,777,154	9,345,867	431,287
Parking Garage	747,677	734,401	13,276
Interest on long term debt	1,935,242	1,872,816	62,426
Total expenses	<u>58,944,334</u>	<u>55,750,706</u>	<u>3,193,628</u>
Increase in net assets before transfers and other expenses	604,453	619,885	(15,432)
Transfers	0	-	-
Other expenses	-	-	-
Increase in net assets	<u>604,453</u>	<u>619,885</u>	<u>(15,432)</u>
Net assets - July 1	57,884,299	57,264,414	619,885
Net assets - June 30	<u>\$ 58,488,752</u>	<u>\$ 57,884,299</u>	<u>\$ 604,453</u>

Revenues for the City's governmental activities were \$59.5 million, an increase of \$3,178,196 from the prior year. Taxes which include occupational license fees, property taxes, insurance premiums taxes, and net profit taxes increased \$509,505 (1.3%) and represent 65.7% of all revenue. Payroll occupational license fees increased \$1,630,630 or 7.5% as the employment base and business climate continued to improve, at least through the end of the fiscal year.

Total expenses for the City's governmental activities were \$58.9 million, a 5.7% increase from the prior year. Public Safety expenses totaled \$30.2 million and accounted for 51.3% of all expenditures. Emphasis on Public Safety was reflected in an increase of \$627,327 or 4.2%, in Police expense and an increase of \$1,157,677, or 8.5%, in Fire expense.

Fund Financial Statements

GENERAL FUND

The following schedules and charts present a summary of the General Fund revenues and expenditures for the fiscal year ended June 30, 2008, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2008 Amount	Percent Of Total	Increase (Decrease) From FYE 2007	Percent Increase (Decrease)
Taxes	\$ 13,036,194	28.82%	\$ 31,855	0.26%
Licenses and permits	26,357,476	58.27%	1,460,279	6.86%
Intergovernmental	508,913	1.13%	220,618	23.41%
Fines and forfeitures	669,260	1.48%	(42,526)	-8.88%
Charges for services	4,203,614	9.29%	409,460	11.36%
Interest	91,515	0.20%	(20,491)	-130.76%
Miscellaneous	367,186	0.81%	(56,292)	-21.73%
Total revenues	\$ 45,234,158	100.00%	\$ 2,002,903	4.63%

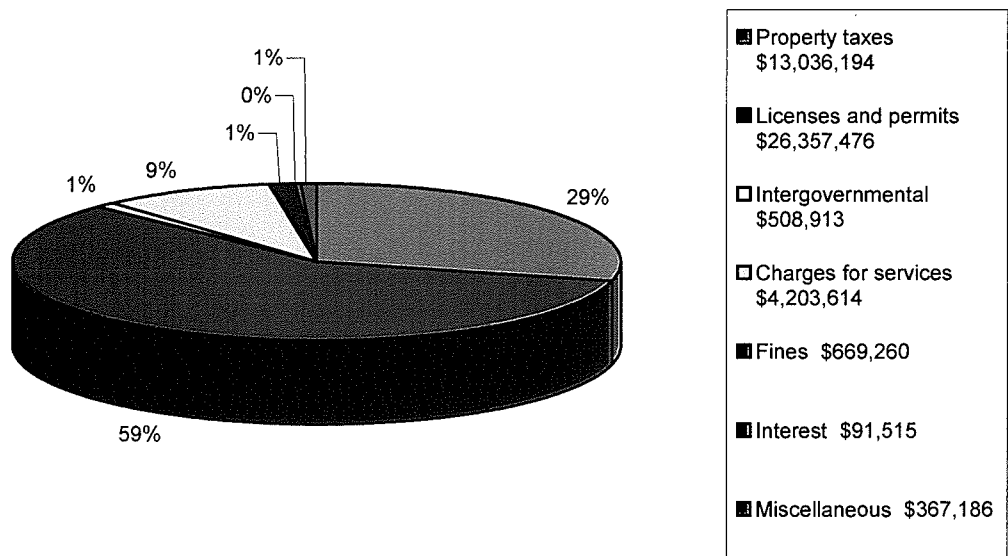
Taxes which include real estate taxes, personal property taxes, and insurance premiums taxes increased modestly by \$31,855. Increases in real estate tax revenue and in personal property tax revenue were offset by a 7.3% decrease in insurance premiums tax. During the year, the Board of Commissioners approved an increase in the property tax rate from .2842 per \$100 valuation to .2924 per \$100 valuation. Total taxable assessed value increased to \$1,987,777,000, or 1.1%.

Occupational License revenue includes both a payroll occupational license fee and a net profit occupational license fee on businesses. The occupational fee on payroll increased \$1,630,630, or 7.5% and the net profit revenue decreased \$180,240 from the prior fiscal year. The rate of growth in taxable wages was expected to increase significantly during the next two years. Expansion of Fidelity Investment Inc, the largest single employer in Covington, and the construction of the St. Elizabeth medical center were estimated to add 2,000 jobs over the next two years. While the completion of the St. Elizabeth medical center is on schedule, the expansion of the number of jobs at Fidelity Investments is expected to slow in the near future until the economy as whole begins to rebound.

The increase in charges for services is the result of the new solid waste removal contract that was negotiated during the year. A mandatory toter program and higher rates driven by rising fuel costs explain the increase in charges for services.

Interest income, which by contract is tied to Federal Funds rate, decreased due to Federal Reserve action. The interest earned on City funds is tied to the Federal Fund Rate.

2008 General Fund Revenues

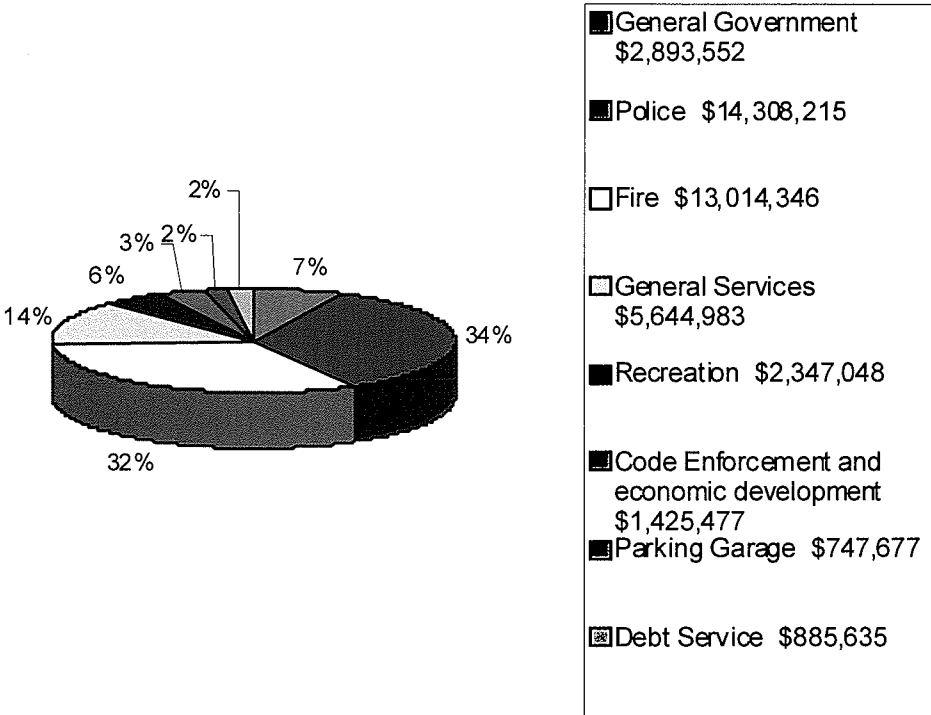


Expenditures	FYE 2008 Amount	Percent Of Total	Increase (Decrease) From FYE 2007	Percent Increase (Decrease)
General government	\$ 2,893,552	7.01%	\$ 229,328	9.34%
Public safety	27,322,561	66.21%	1,305,828	6.34%
General services	5,644,983	13.68%	352,623	4.96%
Recreation	2,347,048	5.69%	37,089	5.03%
Code enforcement and economic development	1,425,477	3.45%	196,578	18.81%
Parking garage	747,677	1.81%	13,276	1.78%
Debt service	885,635	2.15%	(12,803)	-2.79%
Total expenditures	\$ 41,266,933	100.00%	\$ 2,121,919	5.42%

Expenditures increased from the prior year by 5.42%, or \$2,121,919. Salaries including overtime increased \$664,439, or 3.7%. Four new positions were added two of which were in Code Enforcement. Pension costs experienced a dollar and percentage increase of \$1,052,751 and 23.1% respectively. The Kentucky State legislature, during the 2008 session, adopted legislation that will begin to address the state pension funding crisis. However, much remains to be done and a statewide Blue Ribbon Commission has been formed to develop a plan to control pension costs. Workers Compensation costs have increased \$186,452, or 18.5%. One of the new positions is a Risk Manager. Major responsibilities of the position include formulating a comprehensive plan to reduce the city's experience modification and premium. The Kentucky League of Cities has awarded a two year grant to fund half of the costs of the Risk Manager.

Motor Fuel costs and utilities have increased \$141,502, or 26.6% and \$73,260, or 9.1% respectively.

2008 General Fund Expenditures



Other Governmental Funds

The City's governmental funds reported a combined ending fund balance of \$5,679,763, a decrease of \$68,593 from the previous year. General Fund Balance increased \$63,391.

The US Department of Housing and Urban Development (HUD) is the funding source for the Housing Voucher Program. During the year, payments from HUD exceeded actual assistance payments to landlords by \$377,749. In the past, a reconciliation of actual program utilization would require repayment of unused funds during the year. Changes in the HUD reconciliation process eliminated the payback and funds remained with the City. Instructions have not yet been transmitted on how HUD will handle the unused funds from the 2008 fiscal year.

The increases in General Fund Balance and the Housing Voucher were offset by decreases in fund balances in the Non-Major Governmental Funds. Fund balances decreased by \$236,559 in the Newport Steel UDAG Fund, \$377,783 in the Capital Improvement Fund, and \$337,808 in the Sewer Maintenance Fund.

An economic development loan to create jobs was the primary reason for the decrease in fund balance in the Newport Steel Fund. Proceeds were used to rehab a historic mid town building for use as professional office space. The building has been restored and 75 professional jobs have been created. The loan will be repaid in five years. Unused monies from prior year were disbursed from the Capital Improvement Fund during the current year which resulted in a decrease in fund balance. The fund balance in Sewer Maintenance Fund was used for the second to last payment to the regional Sanitation District. The Sanitation District assumed responsibility for the maintenance of the city sanitation system in 1999. The City agreed to transfer funds over 10 years to subsidize estimated improvements to the new merged sewer district.

The \$400,000 increase in Working Capital Reserve fund balance consists of a transfer from General Fund. The fund balance from the Working Capital Reserve is combined with the fund balance of the General Fund to calculate the City's progress toward a minimum 5% of General Fund revenue fund balance retention policy. Disbursements from the fund can only be made by resolution adopted by the Board of Commissioners. No disbursements from the Working Capital Reserve have been approved since its inception.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City Commission approved revisions of the General Fund budget one time. The revenue budget was increased \$860,276, or 1.9%. The increase in revenue budget includes an increase of \$120,000 in transfers from other funds. The expense budget was increased \$860,276, or 1.9%. The increase in the expense budget includes an increase of \$425,000 in transfers to other funds.

Original revenue line items that increased are as follows:

Property Taxes	\$150,000
Payroll License Fees	145,000
Insurance Premium Taxes	57,000
Intergovernmental	135,000
Fines & Forfeitures	25,000
Ambulance Fees	100,000
Waste Fees	128,276
Transfers to Other Funds	120,000

The budget amendment was made to more closely reflect the anticipated actual revenue and expense for the year and to formally adopt as part of the budget changes in staff or activities that were approved by the City Commission during the year. Just about all original expense budgets for governmental activities were affected by the increase in utilities and motor fuel costs. General Fund revenue and transfers in were 99.4% of budget and General Fund expenditures and transfers out were 99.2% of budget.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt Administration

At year-end, the City had \$40,511,669 in outstanding notes, capital leases, bonds, and uncompensated absences compared to \$43,196,326 the prior year. The following is a summary of the changes in the City's outstanding long-term debt from fiscal year 2007 to fiscal year 2008.

	Governmental Activities	
	2008	2007
Mortgage Bonds payable (backed by city)	\$ 22,783,036	\$ 24,481,133
Note payable (backed by city)	1,006,916	1,406,475
Capital lease obligations (backed by city)	15,271,145	16,152,702
Compensated Absences	1,450,572	1,156,016
Totals	<u>\$ 40,511,669</u>	<u>\$ 43,196,326</u>

No new debt was issued during the 2008 fiscal year. Principal payments of \$2,979,213 were made during the year.

The Kentucky Constitution states that the total principal amount of City indebtedness, which excludes self-supporting obligations, revenue bonds, special assessment debt, and non-tax supported debt, cannot exceed 10% of the value of taxable property in the City. The debt limit for the City of Covington is \$199 million.

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

Capital Assets

The City's capital assets, net of depreciation as of June 30, 2008 totaled \$65,807,399, a decrease of \$593,039 from last year.

This year's major capital additions are as follows:

Land Acquisition Restricted for Development	\$756,612
Building Improvements	
City Hall	115,523
RiverCenter Parking Garage	24,952
Infrastructure including street resurfacing etc	1,153,948
Communication Systems for Public Safety	342,671
Police Cruisers	218,561
Fire Pumpers	796,227
Construction in Progress	102,282

The following is a summary of changes in the City's capital assets from fiscal year 2007 to fiscal year 2008.

	Governmental	
	Activities	
	2008	2007
Land	\$ 15,078,717	\$ 14,376,605
Land improvements	1,276,802	1,159,362
Building	23,095,573	23,354,973
Building Improvements	8,438,401	8,297,926
Vehicles	9,852,183	8,681,625
Other equipment	4,510,852	4,743,998
Public domain infrastructure	105,518,537	104,364,589
Construction in progress	986,667	884,385
TOTALS	\$ 168,757,732	\$ 165,863,463

The City has elected to apply the Modified Approach to accounting for its streets infrastructure system as set forth in GASB 34. The City uses a pavement condition index (PCI) to assess the surface condition of individual pavement segments. The percentage of roads with a PCI less than 24 on a scale of 100 was reduced from 5.74% as of June 30, 2005 to 2.96% as of June 30, 2008. Roads with a PCI of 24 or less are considered in serious or failed condition. The condition of the City's streets is a still a major concern. An investment of \$29.4 million is required over the next five years to bring City streets up to a reasonable standard. Plans to accomplish that have yet to be completed.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budget for the 2009 fiscal year continues to move the City toward financial accountability and stability. Increasing General Fund and Working Capital Reserve fund balances, control of salary and health care costs, and continuation of basic city services have been accomplished without any layoffs or other service reductions.

Significant progress has been made on increasing the City's financial reserves. As discussed in the financial highlights, the combined fund balance in the General Fund and the Working Capital Reserve is \$2,106,103, or 4.7%, of General Fund revenue. Three years ago, the combined fund balance in the General Fund and Working Capital Reserve was \$235,127, or .6%, of General Fund revenue.

The City, however, continues to under fund its capital investment. Over the next five years an investment of \$47.2 million is required. The 2009 budget includes only \$6.2 million in capital investment which is well short of the \$9.4 million per year average that is required. With progress toward the minimum financial reserves, plans will be focused next on increasing investment in capital assets. Reduced dependence on debt for completing these projects will also be a critical element of this process.

The economic outlook is mixed for the coming year. The housing mortgage crisis and credit crunch will likely dampen growth. Despite the economic slowdown, job expansion will increase as current economic development projects come on line.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF COVINGTON, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government	Component Unit
	Governmental Activities	Devou Properties, Inc.
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 5,681,649	\$ 1,477,255
Receivables		
Property Taxes	755,704	-
Intergovernmental	439,335	-
Notes	15,144,178	-
Accounts	5,579,464	172,480
Prepays	750,710	-
Due from Pension Trust Funds	537,062	-
Inventories	130,215	-
	<u>29,018,317</u>	<u>1,649,735</u>
Noncurrent Assets		
Deferred Charges, Net	321,860	-
Net Pension Obligation Asset	9,236,272	-
Land and Construction in Progress	17,342,186	-
Depreciable Capital Assets	151,415,546	17,184
Less Accumulated Depreciation	(102,950,333)	(10,196)
	<u>75,365,531</u>	<u>6,988</u>
Total Assets	<u>104,383,848</u>	<u>1,656,723</u>
Liabilities		
Current Liabilities		
Accounts Payable	1,916,739	92,684
Accrued Liabilities	2,333,613	15,618
Accrued Interest Payable	147,452	-
Unearned Revenue	557,876	441,354
Line of Credit	427,747	
Current Portion of Accumulated Compensated Absences	1,450,572	-
Current Portion of Capital Lease Obligations	2,329,565	-
Current Portion of Bonds and Notes Payable	2,168,242	-
	<u>11,331,806</u>	<u>549,656</u>
Noncurrent Liabilities		
Noncurrent Portion of Capital Lease Obligations	12,941,580	-
Noncurrent Portion of Bonds and Notes Payable	21,621,710	-
	<u>34,563,290</u>	<u>-</u>
Total Liabilities	<u>45,895,096</u>	<u>549,656</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	41,334,965	6,988
Restricted for Debt Service	550,682	-
Unrestricted	16,603,105	1,100,079
	<u>\$ 58,488,752</u>	<u>\$ 1,107,067</u>

See accompanying notes

CITY OF COVINGTON, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit
Primary Government						
Governmental Activities						
General Government	\$ 7,807,872	\$ 1,145,333	\$ 149,307	\$ 907,555	\$ (5,605,677)	
Police	15,501,195	382,318	930,670	175,140	(14,013,067)	
Fire	14,753,208	1,084,825	-	443,785	(13,224,598)	
General Services	5,995,347	1,464,056	326,627	524,174	(3,680,490)	
Recreation	2,426,639	-	-	-	(2,426,639)	
Code Enforcement and Economic Development	9,777,154	41,860	9,416,963	-	(318,331)	
Parking Garage	747,677	1,120,916	-	-	373,239	
Interest on Long-Term Debt	1,935,242	-	-	-	(1,935,242)	
Total Governmental Activities	58,944,334	5,239,308	10,823,567	2,050,654	(40,830,805)	
Total Primary Government	\$ 58,944,334	\$ 5,239,308	\$ 10,823,567	\$ 2,050,654	(40,830,805)	
Component Unit						
Devou Properties, Inc.	\$ 695,379	\$ 879,470	\$ -	\$ -	\$ 184,091	
General revenues:						
Taxes						
Real Property Taxes, Levied for General Purposes					4,680,355	-
Personal Property Taxes, Levied for General Purposes					601,109	-
Public Service Taxes					2,178,804	-
Taxes, Levied for Bank Deposits					67,789	-
Insurance Premium Taxes					4,860,194	-
Payroll Taxes					23,287,559	-
Net Profits Taxes					2,779,489	-
Other Taxes					647,217	-
Investment Earnings					317,416	74,574
Miscellaneous					2,015,326	34,783
Total General Revenues and Special Item					41,435,258	109,357
Change in Net Assets					604,453	293,448
Net Assets June 30, 2007					57,884,299	813,619
Net Assets June 30, 2008					\$ 58,488,752	\$ 1,107,067

See accompanying notes

CITY OF COVINGTON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
 June 30, 2008

	<u>General Fund</u>	<u>Community Development Block Grant</u>	<u>HOME Program</u>	<u>Housing Voucher Program</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and Cash Equivalents	\$ 1,498,551	\$ -	\$ 12,758	\$ 2,039,798	\$ 1,487,471	\$ 5,038,578
Receivables						
Taxes	713,463					755,704
Intergovernmental		195,519	218,177		25,640	439,336
Notes		7,789,011	4,736,593		2,618,574	15,144,178
Accounts	5,115,908			16,285	236,302	5,368,495
Inventories	130,215					130,215
Due from Other Funds	2,456,099	85,162	7,500	80	2,785,971	5,334,812
Prepays	4,483				746,227	750,710
Total Assets	<u>\$ 9,918,719</u>	<u>\$ 8,069,692</u>	<u>\$ 4,975,028</u>	<u>\$ 2,056,163</u>	<u>\$ 7,942,426</u>	<u>\$ 32,962,028</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$ 1,377,656	\$ 111,929	\$ 70,669	\$ 42,020	\$ 262,744	\$ 1,865,018
Accrued Liabilities	1,271,580					1,271,580
Due to Other Funds	4,300,766	168,752	63,903	69,929	2,043,300	6,646,650
Deferred Revenue	2,228,395	7,789,011	4,736,593	47,259	2,697,759	17,499,017
Total Liabilities	<u>9,178,397</u>	<u>8,069,692</u>	<u>4,871,165</u>	<u>159,208</u>	<u>5,003,803</u>	<u>27,282,265</u>
Fund Balances						
Reserved for:						
Prepays	4,483					4,483
Unreserved						
Undesignated, Reported In						
General Fund	735,839					735,839
Special Revenue Funds			103,863	1,896,955	2,295,994	4,296,812
Capital Projects Funds					91,947	91,947
Debt Service Funds					550,682	550,682
Total Fund Balances	<u>740,322</u>		<u>103,863</u>	<u>1,896,955</u>	<u>2,938,623</u>	<u>5,679,763</u>
Total Liabilities and Fund Balances	<u>\$ 9,918,719</u>	<u>\$ 8,069,692</u>	<u>\$ 4,975,028</u>	<u>\$ 2,056,163</u>	<u>\$ 7,942,426</u>	<u>\$ 32,962,028</u>

See accompanying notes

CITY OF COVINGTON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2008

Total Fund Balance - Governmental Funds \$ 5,679,763

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

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

Cost of Capital Assets	\$ 168,757,732	
Accumulated Depreciation	<u>(102,950,333)</u>	65,807,399

Certain other long-term assets are not available to pay current period expenditures and are therefore deferred in the funds. 16,941,138

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

Cash and Cash Equivalents	643,071	
Accounts Receivable	210,968	
Due From Other Funds	2,398,899	
Accounts Payable	(51,719)	
Estimated Liability for Claims	(1,062,031)	
Due to Other Funds	<u>(550,000)</u>	1,589,188

Deferred charges represent costs related to the issuance of new bonds and also refunding costs. Deferred charges are reported as an other use of funds in the governmental funds statements. However, on the government wide statement of net assets these costs are capitalized and reported as a deferred charge, and amortized over the life of the related bonds. 321,860

Net pension obligation asset represents contributions made to the City's pension funds in excess of the actuarially required contribution. The excess contributions are capitalized and amortized. 9,236,272

Interest payable on long term debt does not require current financial resources. Therefore accrued interest payable is not reported as a liability in the governmental funds balance sheet. (147,452)

Some capital additions were financed through a line of credit. In governmental funds, a line of credit is considered a source of financing, but in the Statement of Net Assets, the obligation is reported as a liability. (427,747)

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

Bonds Payable	23,789,952	
Capital Lease Obligations Payable	15,271,145	
Compensated Absences Payable	<u>1,450,572</u>	<u>(40,511,669)</u>

Total Net Assets - Governmental Activities **\$ 58,488,752**

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	General Fund	Community Development Block Grant	HOME Program	Housing Voucher Program	Non-Major Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 13,036,194	-	-	-	\$ 645,957	\$ 13,682,151
Licenses and Permits	26,357,476	-	-	-	-	26,357,476
Intergovernmental	508,913	2,055,774	655,755	6,150,195	2,693,000	12,063,637
Charges for Services	4,203,614	-	-	-	324,066	4,527,680
Fines and Forfeitures	669,260	-	-	-	-	669,260
Investment Earnings	91,515	-	4,837	74,475	99,692	270,519
Miscellaneous	367,186	768,184	133,807	8,773	1,104,362	2,382,312
Total Revenues	<u>45,234,158</u>	<u>2,823,958</u>	<u>794,399</u>	<u>6,233,443</u>	<u>4,867,077</u>	<u>59,953,035</u>
Expenditures						
Current						
General Government	2,893,552	-	-	-	660,581	3,554,133
Police	14,308,215	-	-	-	705,421	15,013,636
Fire	13,014,346	-	-	-	944,876	13,959,222
General Services	5,644,983	-	-	-	-	5,644,983
Recreation	2,347,048	-	-	-	-	2,347,048
Code Enforcement and Economic Development	1,425,477	1,117,320	811,733	5,855,694	560,958	9,771,182
Parking Garages	747,677	-	-	-	-	747,677
Debt Service	-	-	-	-	-	-
Principal	540,710	67,000	-	-	2,310,875	2,918,585
Interest and Other Charges	344,925	33,131	-	-	1,450,975	1,829,031
Capital Outlay	-	1,245,507	-	-	2,914,409	4,159,916
Total Expenditures	<u>41,266,933</u>	<u>2,462,958</u>	<u>811,733</u>	<u>5,855,694</u>	<u>9,548,095</u>	<u>59,945,413</u>
Excess (Deficit) of Revenues Over Expenditures	<u>3,967,225</u>	<u>361,000</u>	<u>(17,334)</u>	<u>377,749</u>	<u>(4,681,018)</u>	<u>7,622</u>
Other Financing Sources (Uses)						
Transfers In	931,000	-	-	-	4,446,180	5,377,180
Capital Lease Acquisitions	-	-	-	-	427,747	427,747
Transfers Out	(4,834,834)	(361,000)	-	-	(685,308)	(5,881,142)
Total Other Financing Sources (Uses)	<u>(3,903,834)</u>	<u>(361,000)</u>	<u>-</u>	<u>-</u>	<u>4,188,619</u>	<u>(76,215)</u>
Net Change in Fund Balances	<u>63,391</u>	<u>-</u>	<u>(17,334)</u>	<u>377,749</u>	<u>(492,399)</u>	<u>(68,593)</u>
Fund Balance July 1, 2007	<u>676,931</u>	<u>-</u>	<u>121,197</u>	<u>1,519,206</u>	<u>3,431,022</u>	<u>5,748,356</u>
Fund Balance June 30, 2008	<u>\$ 740,322</u>	<u>\$ -</u>	<u>\$ 103,863</u>	<u>\$ 1,896,955</u>	<u>\$ 2,938,623</u>	<u>\$ 5,679,763</u>

See accompanying notes

CITY OF COVINGTON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Change in Fund Balances - Total Governmental Funds		\$ (68,593)
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p>		
<p>Capital Outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense exceeds capital outlays in the period.</p>		
Depreciation Expense	\$ (4,628,951)	
Capital Outlays	<u>4,090,312</u>	(538,639)
<p>Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the net book value of the asset sold.</p>		
		(54,400)
<p>Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.</p>		
		(338,546)
<p>Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.</p>		
		2,979,213
<p>The Statement of Activities reports annual pension cost, which includes the actuarially required contribution along with an interest factor and adjustment of the net pension obligation asset.</p>		
		(977,758)
<p>Accrued interest not reflected on Governmental funds.</p>		
		13,548
<p>In the Statement of Activities, compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The additional expense reported in the statement of activities is a result of the change in long-term accumulated sick leave.</p>		
		(294,556)
<p>Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability.</p>		
		(427,747)
<p>Costs related to the issuance of new bonds and deferred refunding costs are reported as an other use of funds in the governmental funds financial statements. However, on the government-wide statement of net assets these costs are capitalized and reported as a deferred charge, and subsequently amortized over the life of the related bonds. This is the amount of current year amortization expense.</p>		
		(46,817)
<p>Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.</p>		
		<u>358,748</u>
Total Change in Net Assets - Governmental Activities		\$ <u>604,453</u>

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	Governmental Activities <hr/> Internal Service Funds <hr/>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 643,071
Accounts Receivable	210,968
Due from Other Funds	<hr/> 2,398,899
Total Assets	<hr/> <hr/> 3,252,938
 Liabilities	
Current Liabilities	
Accounts Payable	51,719
Estimated Liability for Claims	1,062,031
Due to Other Funds	<hr/> 550,000
Total Liabilities	<hr/> <hr/> 1,663,750
 Net Assets	
Unrestricted	\$ <hr/> <hr/> 1,589,187

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2008

	<u>Governmental Activities Internal Service Funds</u>
Operating Revenues	
Insurance Premium Payments	\$ 4,900,538
Other Operating Revenues	<u>246,739</u>
Total Operating Revenues	<u>5,147,277</u>
Operating Expenses	
Contractual Services	590,169
Claims and Judgments	<u>4,749,260</u>
Total Operating Expenses	<u>5,339,429</u>
Operating Loss	(192,152)
Non-Operating Revenues	
Investment Income	<u>46,938</u>
Loss Before Transfers	(145,214)
Transfers In	<u>503,962</u>
Change in Net Assets	358,748
Net Assets July 1, 2007	<u>1,230,439</u>
Net Assets June 30, 2008	<u><u>\$ 1,589,187</u></u>

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2008

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 4,627,590
Cash Received from Other Activities	246,739
Cash Paid for Claims	<u>(5,227,272)</u>
Net Cash Used by Operating Activities	(352,943)
Cash Flows from Non-Capital Financing Activities	
Transfer from Other Funds	503,962
Cash Flows from Investing Activities	
Interest Income	<u>46,938</u>
Net Change in Cash	197,957
Cash and Cash Equivalents July 1, 2007	<u>445,114</u>
Cash and Cash Equivalents June 30, 2008	<u><u>\$ 643,071</u></u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating Loss	\$ (192,152)
Change in Assets and Liabilities	
Accounts Receivable	(210,968)
Due from Other Funds	(611,980)
Accounts Payable	45,958
Estimated Liability Claims	66,199
Due to Other Funds	<u>550,000</u>
Net Cash Used by Operating Activities	<u><u>\$ (352,943)</u></u>

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2008

	<u>Fiduciary Funds</u>
Assets	
Cash and Cash Equivalents	\$ 1,561,494
Investments - Mutual Funds	17,944,451
Notes Receivable	72,037
Due from Other Funds	<u>136</u>
 Total Assets	 <u>19,578,118</u>
Liabilities	
Accounts Payable	685
Due to Other Funds	<u>537,199</u>
 Total Liabilities	 <u>537,884</u>
Net Assets	
Held in Trust for Pension Benefits	<u><u>\$ 19,040,234</u></u>

See accompanying notes.

CITY OF COVINGTON, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2008

	<u>Fiduciary Funds</u>
Additions	
Contributions	
Employee Contributions	\$ 8,631
Impounding Lot	<u>159,617</u>
Total Revenues	<u>168,248</u>
Investment Earnings	
Interest and Dividends	865,192
Net (Depreciation) in Fair Value of Investments	<u>(2,169,958)</u>
Total Investment Earnings	<u>(1,304,766)</u>
Total Additions	<u>(1,136,518)</u>
Deductions	
Benefit Payments	2,427,629
Administration	89,615
Impounding Lot	<u>14,086</u>
Total Deductions	<u>2,531,330</u>
Change in Net Assets	(3,667,848)
Net Assets July 1, 2007	<u>22,708,082</u>
Net Assets June 30, 2008	<u>\$ 19,040,234</u>

See accompanying notes.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Financial Reporting Entity

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

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

Blended Component Units Included Within the Reporting Entity:

City of Covington Non-Uniformed Employees' Pension Fund

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

City of Covington Police and Firemen's Pension Fund

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

City of Covington Municipal Properties Corporation

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

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

Devou Properties, Inc. (a non-profit organization) is included in the City's financial statements as a discretely presented component unit. Although a legally separate entity, Devou Properties, Inc. is included in these financial statements because of its financial accountability to the City. Devou Properties, Inc. was formed to maintain and operate the Drees Pavilion at Devou Memorial Overlook for the City of Covington, for the benefit of Devou Park. Devou Properties, Inc. is responsible for renting out the facilities for events, including weddings, receptions and corporate events. Directors of Devou Properties, Inc. are appointed by the City's Board of Commissioners, upon the recommendation of the Mayor. Any excess funds from operations of the facility are to be set aside to be used on Devou Park projects. As a discretely presented component unit, the financial statements of Devou Properties, Inc. are only included on the City's government-wide financial statements in a column that makes it clearly separate from the primary government. Devou Properties, Inc. operates on a calendar year-end basis therefore the financial statements for the year ended December 31, 2007 are included in the City's current financial statements. Audited financial statements of Devou Properties, Inc. are available and may be obtained by contacting the City Manager.

Basis of Presentation Government-Wide Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The government reports the following proprietary funds:

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

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

The City reports the following major governmental funds:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity:

Cash and Cash Equivalents

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

The City is authorized by state statute to invest in:

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

Investments

In accordance with Government Accounting Standards Board Statement No. 31, investments held at June 30, 2008 are recorded at fair value based on quoted market prices.

Types of investments allowable in the Pension Trust Funds are governed by the Pension Board of Trustees. All investments are stated in accordance with Statement No. 31.

Property Tax Receivable

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

Notes Receivable

Notes receivable are carried at their unpaid principal balance.

Short-Term Interfund Receivables/Payables

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

Inventories

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008 are recorded as prepaid items.

Capital Assets

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure, such as streets, traffic signals and signs are capitalized, including infrastructure acquired prior to the implementation of GASB Statement 34. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are recorded at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. The City maintains a capitalization threshold of one thousand dollars with the exception of Infrastructure for which the threshold is twenty-five thousand dollars.

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

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

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated to be taken as "terminal leave" prior to retirement.

Long-Term Obligations

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

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

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

Unearned/Deferred Revenue

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity

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

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

Revenues, Expenditures and Expenses:

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

Governmental Funds - by Character	Current – Further Classified by Function
	Debt Service
	Capital Outlay

Proprietary Fund - by Operating and Non-Operating

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

Interfund Transactions

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

Use of Estimates

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

Budgetary Information

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

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

Excess of Expenditures over Appropriations

The following fund had expenditures in excess of legally adopted appropriations for the year ended June 30, 2008:

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

NOTE 3 – DEPOSITS

Cash and Cash Equivalents

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

As of June 30, 2008, \$100,000 of the City's deposits are insured by the FDIC, and \$7,381,002 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, 2008, the City did not have any deposits in excess of insured and/or collateralized amounts.

As of December 31, 2007, Devou Properties, Inc. (a component unit of the City) had \$1,377,255 in cash in excess of insured limits.

Investments

Investments are made by the City as an agent for the City Employee's Retirement Fund and the Police and Firemen's Pension Fund. The City maintains investment accounts with brokerage institutions which hold the investments registered in the City's name. As of June 30, 2008, all of the City's investments were covered by SIPC coverage or Excess SIPC coverage provided by the institution, and are therefore not subject to custodial credit risk.

Custodial Credit Risk

For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will be able to recover the value of its cash, investments or collateral securities that are in the possession of an outside party. The City has no formal policy on custodial credit risk. As of June 30, 2008, the City had \$7,381,002 of deposits collateralized with securities held by the pledging institution's trust department but not in the City's name.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Additions	Retirements/ Deletions	Balance End of Year
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated				
Land	\$ 14,376,605	\$ 756,512	\$ 54,400	\$ 15,078,717
Land Improvements	1,159,362	117,440	-	1,276,802
Construction in Progress	884,385	102,282	-	986,667
Total Capital Assets Not Being Depreciated	<u>16,420,352</u>	<u>976,234</u>	<u>54,400</u>	<u>17,342,186</u>
Depreciable Capital Assets				
Buildings	23,354,973	-	259,400	23,095,573
Building Improvements	8,297,926	140,475	-	8,438,401
Infrastructure	104,364,589	1,153,948	-	105,518,537
Machinery and Equipment	4,743,998	411,538	644,684	4,510,852
Vehicles	8,681,625	1,408,117	237,559	9,852,183
Total Depreciable Capital Assets	<u>149,443,111</u>	<u>3,114,078</u>	<u>1,141,643</u>	<u>151,415,546</u>
Less: Accumulated Depreciation				
Buildings	7,562,453	570,982	259,400	7,874,035
Building Improvements	7,418,193	239,199	-	7,657,392
Infrastructure	72,221,952	3,018,380	-	75,240,332
Machinery and Equipment	4,183,789	214,416	644,684	3,753,521
Vehicles	8,076,638	585,974	237,559	8,425,053
Total Accumulated Depreciation	<u>99,463,025</u>	<u>4,628,951</u>	<u>1,141,643</u>	<u>102,950,333</u>
Depreciable Capital Assets, Net	<u>49,980,086</u>	<u>(1,514,873)</u>	<u>-</u>	<u>48,465,213</u>
Total Governmental Activities Capital Assets - Net	<u>\$ 66,400,438</u>	<u>\$ (538,639)</u>	<u>\$ 54,400</u>	<u>\$ 65,807,399</u>
<u>Component Unit</u>				
Devou Properties, Inc.				
Depreciable Capital Assets				
Property and Equipment	\$ 17,184	\$ -	\$ -	\$ 17,184
Less: Accumulated Depreciation Property and Equipment	<u>7,655</u>	<u>2,541</u>	<u>-</u>	<u>10,196</u>
Total Component Unit Capital Assets - Net	<u>\$ 9,529</u>	<u>\$ (2,541)</u>	<u>\$ -</u>	<u>\$ 6,988</u>

*Depreciation was charged to functions as follows:

Governmental Activities	
Administration	\$ 3,809,382
Police	287,532
Fire	404,609
General Services	47,837
Parks and Recreation	<u>79,591</u>
Total Governmental Activities Depreciation Expense	<u>\$ 4,628,951</u>

NOTE 5 - INTERFUND ACTIVITY

Interfund receivables/payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables were as follows at June 30, 2008:

Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Police Block Grant	\$ 13,173
	CDBG	161,172
	City Hall Operations	28,243
	HOME Program	63,903
	Capital Improvement Fund	1,297,693
	Police Forfeiture	98,864
	Housing Choice Voucher	69,929
	Newport Steel	50,249
	2004 Pension Obligation	14,820
	Devou Park	38,229
	Police and Fire Incentive Pay	82,625
	Police and Firemen's Pension	<u>537,199</u>
	Total Due to General Fund	2,456,099
CDBG	Newport Steel	85,162
HOME Program	CDBG	7,500
Housing Voucher	CDBG	80
Federal & State Grants	General	14,451
City Hall Operations	Capital Improvement Fund	35,206
Renaissance Grant	General	232,099
CAD System	General	83,024
Working Capital Reserve	General	1,353,814
	Federal & State Grant	<u>16,450</u>
	Total Due to Working Capital Reserve	1,370,264
Capital Improvement Fund	Renaissance Grant	156,652
	Liability Self Insurance	550,000
	Devou Park	<u>110,000</u>
	Total Due to Capital Improvement Fund	816,652
Investor Program	General	2,300
	Newport Steel	8,583
	Arts District	<u>2,043</u>
	Total Due to Investor Program	12,926

NOTE 5 - INTERFUND ACTIVITY (Continued)

Receivable Fund	Payable Fund	Amount
Liability Self Insurance	General	1,668,507
Arts District	General	12,053
Medical Self Insurance	General	730,392
Devou Park Maintenance	General	3,708
HAC Property Acquisitions	Rental Rehab	5,308
Sewer Maintenance	General	194,093
501 Main Street Operations	General	6,187

Interfund Transfers:

Transfers are typically used to move unrestricted revenues collected in one fund to finance various programs accounted for in another fund in accordance with budgetary authorizations and to fund debt service payments when they become due.

Transfer From	Transfer To	Amount
General Fund	Renaissance Grant	\$ 5,725
	Fire Dept. Grant Fund	21,447
	Arts District	32,207
	Devou Park Maintenance	36,793
	501 Main Street Operations	38,938
	City Hall Operations	47,418
	Working Capital Reserve	400,000
	Liability Self Insurance	503,962
	Capital Improvement	556,599
	Debt Service	<u>2,234,275</u>
	Total Transfer From General Fund	3,877,364
CAD	General	570,000
Capital Improvement Fund	KLC Series 2002	957,470
CDBG	General	361,000
Devou Park Maintenance	Capital Improvement	110,000
Investor Program		<u>5,308</u>
		<u>\$ 5,881,142</u>

NOTE 6 – SHORT TERM DEBT

On July 2, 2007 the city issued a Tax and Revenue Anticipation Note in the amount of \$3,000,000 for the purpose of providing working capital in advance of tax and revenue cash flows. This note carried a fixed interest rate of 4.3% and matured on June 30, 2008 at which time it was repaid out of the general fund.

During the year the City obtained a line of credit to facilitate real estate development. The total amount of credit available is \$500,000 and the debt charges interest at 5.5%. This line of credit matures August 1, 2009 and had an outstanding balance at June 30, 2008 of \$427,747.

On July 1, 2006 the city issued a Tax and Revenue Anticipation Note in the amount of \$3,500,000 for the purpose of providing working capital in advance of tax and revenue cash flows. This note carried a fixed interest rate of 4.15% and matured on June 30, 2007. The note was repaid on July 2, 2007 from the general fund.

During the year ended June 30, 2008, the following changes occurred in the City's short term debt:

<u>Debt Issue</u>	<u>Balance July 1, 2007</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2008</u>
TRAN	\$ 3,500,000	\$ -	\$ 3,500,000	\$ -
TRAN	-	3,000,000	3,000,000	-
Line of Credit	-	<u>427,747</u>	-	<u>427,747</u>
Total	<u>\$ 3,500,000</u>	<u>\$ 3,427,747</u>	<u>\$ 6,500,000</u>	<u>\$ 427,747</u>

NOTE 7 – GENERAL LONG-TERM DEBT

Capital Lease Obligations

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

The following capital lease obligations payable are payable from governmental fund revenues. The City has entered into various lease agreements as lessee for financing the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes (title transfers at the end of the lease terms) and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of the capital assets acquired through capital leases as of June 30, 2008.

	<u>Capital Assets</u>
Buildings	\$ 8,664,929
Building Improvements	510,836
Equipment	161,320
Land	6,702,070
Infrastructure	989,002
Vehicles	<u>838,647</u>
Total Cost	17,866,804
Accumulated Depreciation	<u>1,687,728</u>
Net Book Value	<u>\$ 16,179,076</u>

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2008.

Fiscal Years Ending June 30,	<u>Amount</u>
2009	\$ 2,967,504
2010	1,432,889
2011	1,432,354
2012	1,434,371
2013	1,432,981
2014-2018	6,431,360
2019-2023	4,721,841
2024-2028	<u>66,373</u>
Total Minimum Lease Payments	19,919,673
Less: Amount Representing Interest	<u>(4,648,528)</u>
Present Value of Future Minimum Lease Payments	15,271,145
Less Current Portion	<u>2,329,565</u>
Non Current Portion	<u>\$ 12,941,580</u>

The City is the lessor of office space located in the city building. These leases are on a year to year basis with cancelable terms. The City's investment in property on operating leases and property held for lease as of June 30, 2008 is as follows:

Cost	\$ 1,500,000
Carrying Amount	\$ 1,412,500
Current Depreciation	\$ 37,500

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

Mortgage Bonds and Notes Payable

The following schedule summarizes outstanding long-term mortgage bonds and notes payable at June 30, 2008.

	Interest Rates	Maturity Dates June 30,	Amounts	
			Issued	Outstanding
Mortgage Bonds				
1989 Series A	11.25 %	2010	\$ 587,737	\$ 72,036
2003 Series	2.00-4.50	2018	4,996,000	3,756,000
KY Infrastructure Auth.	4.55	2014	460,327	170,009
Sanitation District	0.00	2009	3,059,056	305,907
HUD 108	5.13	2015	1,000,000	531,000
2004 Series	Variable	2030	14,410,000	13,465,000
2005 Series	3.00-3.30	2013	7,405,000	5,490,000

Interest on the variable rate 2004 Series Pension Obligation Bonds is paid at the rate of interest determined by the Remarketing Agent, determined on a weekly basis. The rate was 3.72% as of June 30, 2008.

The bonds may be called prior to maturity at rates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the City at June 30, 2008 are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2009	\$ 2,168,242	\$ 969,990	\$ 3,138,232
2010	1,851,745	904,610	2,756,355
2011	1,917,505	840,030	2,757,535
2012	1,981,908	772,201	2,754,109
2013	2,060,377	699,495	2,759,872
2014 - 2018	4,735,175	2,608,952	7,344,127
2019 - 2023	3,150,000	1,708,560	4,858,560
2024 - 2028	4,020,000	902,870	4,922,870
2029 - 2033	<u>1,905,000</u>	<u>87,124</u>	<u>1,992,124</u>
Totals	<u>\$ 23,789,952</u>	<u>\$ 9,493,832</u>	<u>\$ 33,283,784</u>

NOTE 7 - GENERAL LONG-TERM DEBT (Continued)

Changes in Noncurrent Liabilities

During the year ended June 30, 2008, the following changes occurred in noncurrent liabilities:

Debt Issue	Balance July 1, 2007	Additions of New Debt	Repayments and Defeased	Balance June 30, 2008	Amounts Expected to be Paid in One Year
Mortgage Bonds and Notes					
1989 Series A	\$ 134,133	\$ -	\$ 62,097	\$ 72,036	\$ 69,455
2003 Refunding	4,067,000	-	311,000	3,756,000	318,000
HUD 108	598,000	-	67,000	531,000	67,000
Sanitation District	611,812	-	305,905	305,907	305,907
KY Infrastructure Auth.	196,663	-	26,654	170,009	27,880
2005 Refunding Bonds	6,485,000	-	995,000	5,490,000	1,030,000
2004 Series A	13,795,000	-	330,000	13,465,000	350,000
Total Mortgage Bonds and Notes	<u>25,887,608</u>	<u>-</u>	<u>2,097,656</u>	<u>23,789,952</u>	<u>2,168,242</u>
Capital Lease Obligations Infrastructure/Equipment	<u>16,152,702</u>	<u>-</u>	<u>881,557</u>	<u>15,271,145</u>	<u>2,329,565</u>
Compensated Absences	<u>1,156,016</u>	<u>1,362,380</u>	<u>1,067,824</u>	<u>1,450,572</u>	<u>1,450,572</u>
Total Noncurrent Liabilities	<u>\$ 43,196,326</u>	<u>\$ 1,362,380</u>	<u>\$ 4,047,037</u>	<u>\$ 40,511,669</u>	<u>\$ 5,948,379</u>

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

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

Interest Rate Swap

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

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

Fair Value. The swap had a fair value of \$(210,178) as of June 30, 2008. The swap's fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase or decrease.

Credit Risk. As of June 30, 2008, the City was exposed to credit risk in the amount of the swap's fair value. The swap counterparty was rated AA by Standard & Poor's and Aa2 by Moody's Investors Service as of June 30, 2008.

Swap Payments and Associated Debt. For the year ended June 30, 2008, the City did not receive any payments from the agreement. Using rates as of June 30, 2008, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary

Fiscal Years Ending June 30,	Variable-Rate Bonds		Swap, Net	Total
	Principal	Interest		
2009	\$ 350,000	\$ 455,277	\$ 150,747	\$ 956,024
2010	365,000	481,089	108,633	954,722
2011	385,000	467,139	105,483	957,622
2012	405,000	452,445	102,165	959,610
2013	425,000	437,007	98,679	960,686
2014 - 2018	2,460,000	1,710,921	141,603	4,312,524
2019 - 2023	3,150,000	1,406,160	-	4,556,160
2024 - 2028	4,020,000	743,070	-	4,763,070
2029 - 2033	<u>1,905,000</u>	<u>71,703</u>	<u>-</u>	<u>3,021,278</u>
Totals	<u>\$ 13,465,000</u>	<u>\$ 6,224,811</u>	<u>\$ 707,310</u>	<u>\$ 20,397,121</u>

NOTE 7 – GENERAL LONG-TERM DEBT (Continued)

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, 2008, there were four series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$63.1 million.

NOTE 8 – RISK MANAGEMENT

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

All funds of the City participate in the program and make payments to the Liability Self Insurance Fund, however the payments are not based on actuarial estimates of the amounts needed to pay prior and current-year claims but are intended to establish a reserve for catastrophic losses. That reserve was \$1,479,410 at June 30, 2008 and is a designation of the Liability Self Insurance Fund retained earnings. The claims liability reported in the Fund at June 30, 2008, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount were:

<u>July 1, 2006</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2007</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2008</u>
\$ -	\$ 59,244	\$ 59,244	\$ -	\$ 130,509	\$ 130,509	\$ -

The City has also established a Medical Self Insurance Fund. Employees may elect to participate in this program or certain other medical insurance programs offered by the City. Under this program the first \$75,000 of a participants medical claims are payable by the medical self insurance fund. The City purchases insurance for claims in excess of coverage provided by the fund. All funds of the City participate in the program and make payments to the medical self insurance fund based on historical estimates of the amounts needed to pay prior and current year claims. The claims liability of \$1,062,031 reported in the fund at June 30, 2008, is based upon the requirements of Governmental Accounting Standards Board Statement No. 10, as explained above. Changes in the fund's claims liability amount during the year ended June 30, 2008 were as follows:

<u>July 1, 2006</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2007</u>	<u>Claims and Changes In Estimates</u>	<u>Claims Payments</u>	<u>June 30, 2008</u>
\$ 995,832	\$ 4,376,035	\$ 4,376,035	\$ 995,832	\$ 4,618,751	\$ 4,552,552	\$ 1,062,031

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

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

NOTE 9 – EMPLOYEE RETIREMENT PLAN

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

Summary of Significant Accounting Policies

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

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

Plan Descriptions and Contribution Information

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

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

Employees' Pension Plan

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

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

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Police and Firemen's Pension Plan

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

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

Employer Contributions

Years Ended June 30.	Employees' Pension Plan			Police & Firemen's Pension Plan		
	Annual Required Contribution	Contributions Made	Percentage Contributed	Annual Required Contribution	Contributions Made	Percentage Contributed
2008	\$ -	\$ -	- %	\$ -	\$ -	- %
2007	146,203	-	-	60,974	-	-
2006	-	142,034	N/A	77,977	-	-

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

Funded Status and Funding Progress

Actuarial Valuation Date June 30.	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
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Employees' Pension Plan

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

Police & Firemen's Pension Plan

2007	\$ 16,057,288	\$ 15,913,455	\$ (143,833)	101 %	\$ N/A	N/A %
2006	15,157,005	15,575,537	418,532	97	N/A	N/A
2005	15,456,666	15,991,907	535,241	97	N/A	N/A

An actuarial valuation report was not prepared as of July 1, 2008 for the Employees' Pension Plan and the Police & Firemen's Pension Plan.

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

Annual Pension Cost and Net Pension Obligation

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

	<u>Employees' Pension Plan</u>	<u>Police & Firemen's Pension Plan</u>
Annual Required Contribution (ARC)	\$ -	\$ -
Interest on Net Pension Obligation	(243,662)	(522,391)
Adjustment to ARC	<u>554,662</u>	<u>1,189,149</u>
Annual Pension Cost	311,000	666,759
Actual Contributions Made	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Pension Obligation	311,000	666,759
Net Pension Obligation (Asset) – Beginning of Year	<u>(3,248,822)</u>	<u>(6,965,208)</u>
Net Pension Obligation (Asset) – End of Year	<u>\$(2,937,822)</u>	<u>\$(6,298,449)</u>

Three-Year Trend Information

<u>Years Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Change In Net Pension Obligation</u>	<u>Balance of Net Pension Obligation (Asset)</u>
<u>Employees' Pension Plan</u>				
06/30/08	\$ 311,000	- %	\$ 311,000	\$ 2,937,822
06/30/07	448,525	-	448,525	3,248,822
06/30/06	270,426	52.5	128,392	3,697,347
<u>Police & Firemen's Pension Plan</u>				
06/30/08	\$ 666,759	- %	\$ 666,759	\$ 6,298,449
06/30/07	686,644	-	686,644	6,965,208
06/30/06	665,927	-	665,927	7,651,852

NOTE 9 – EMPLOYEE RETIREMENT PLAN (Continued)

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

	<u>Employees' Pension Plan</u>	<u>Police & Firemen's Pension Plan</u>
Valuation Date	July 1, 2007	July 1, 2007
Actuarial Cost Method	Entry Age	Unit Credit
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	10 Years	10 Years
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Investment Rate of Return *	7.5%	7.5%
Projected Salary Increases*	6%	N/A
* Includes Inflation at	3%	3%
Cost-of-Living Adjustments	3%	3%

County Employees Retirement System (CERS)

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

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

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

Non-Hazardous Contributions – For the year ended June 30, 2008, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2008, participating employers contributed 16.17% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

Hazardous Contributions – For the year ended June 30, 2008, plan members were required to contribute 8% of their annual creditable compensation. The City was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2008, participating employers contributed 33.87% of each employee's creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.