

CITY OF COVINGTON, VIRGINIA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014

CITY OF COVINGTON, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2014

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INTRODUCTORY SECTION

CITY OF COVINGTON, VIRGINIA

CITY COUNCIL

Thomas H. Sibold, Jr., Mayor	
William B. Zimmerman, Jr., Vice-Mayor	Allan Tucker
Stephanie R. Clark	David S. Crosier

CITY SCHOOL BOARD

Tammy Scruggs-Duncan, Chair	
Cynthia Bennett, Vice-Chair	Eddy Clemons
Ronald C. Morrisette	Robert Garten

OTHER OFFICIALS

City Manager,	Joseph B. Broughman
City Finance Director	David Bryant, Jr.
City Attorney	Elizabeth K. Dillon
Commissioner of the Revenue	Cathy M. Kimberlin
City Treasurer	Eunice Dressler Clark
Superintendent of Schools	Thomas E. Long
Chief of Police.....	Joseph B. Broughman

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Members of the City Council
City of Covington
Covington, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Covington, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Covington's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-16, budgetary comparison information on page 68, and schedules of pension and OPEB funding progress on page 69, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2014, on our consideration of City of Covington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Covington, Virginia's internal control over financial reporting and compliance.

Robinson, Turner, & Associates

Blacksburg, Virginia
December 14, 2014

CITY OF COVINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2014 (JULY 1, 2013 – JUNE 30, 2014)

As management of the City of Covington, we offer readers of the City of Covington's financial statements this narrative overview and analysis of the financial activities of the City of Covington for the fiscal year ended June 30, 2014.

Financial Highlights

- In Governmental Activities, the assets and deferred outflows of resources of the City of Covington did not exceed its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$(286,799) "total net position". The unrestricted net position as the end of fiscal year 2014 is \$(3,762,775). These negative balances are impacted \$5,843,218 by *unfunded liabilities* in landfill closure/post closure costs, compensated absences costs, and OPEB obligations as well as \$613,024 in machinery and tools taxes that the city refunded to Mead Westvaco related to "green legislation".
- The City of Covington's total net position (Governmental Activities & Business Type Activities) increased \$1,092,627 from End of Year FY 2013 to End of Year FY 2014 as Total Assets increased at a value greater than Total Liabilities attributed to growth in Business Type Activities that more than offset Governmental Activities reduced net position.
- At the close of the current fiscal year, the City of Covington's governmental funds reported an *unassigned* general fund balance of \$2,184,746 for an increase of \$232,187 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the City of Covington's governmental funds reported combined fund balances of \$3,319,668, a decrease of \$2,788,885 in comparison with the prior fiscal year. This change was driven by the use of the School-Capital Reserve Debt Fund to pay down principal of the "bridge school funding" while also acquiring permanent financing. Thru use of the Virginia Public School Authority Bond Pool and city reserve funds, the GO Refunding BAN of \$15,279,100 was refunded and the VPSA GO Refunding Bond was \$11,630,000 on June 30, 2014.
- At the end of the current fiscal year, total fund balance (the total of the *committed*, *restricted*, and *unassigned* components of *fund balance*) for the general fund was \$2,306,399, or approximately 15.2% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City of Covington's basic financial statements. The City of Covington's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Covington's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the City of Covington's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Covington that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Covington include general government administration, judicial administration, public safety, public works, health and welfare, education, parks recreation and cultural activity, and community development. The business-type activities of the City of Covington include Enterprise activities in both water and sewer.

The government-wide financial statements include not only the City of Covington itself (known as the *primary government*), but also a separate school system. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The water and sewer functions are a department of the City of Covington, and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 17-18 of this report.

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

Governmental Funds: *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Covington maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the school/capital project fund, and the school construction debt service fund, which are considered to be major funds.

The City of Covington adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19-22 of this report.

Proprietary Funds: The City of Covington maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Covington uses enterprises funds to account for its Water and Sewer operation. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the City of Covington's Motor Vehicle functions. During the fiscal year, the *Internal Service Funds* were properly accounted for and the fund resolved with costs moving to the general fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer funds, both of which are considered to be major funds of the City of Covington. Conversely, the internal service fund was combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report as well as in Public Works expenditures.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

Notes to the Financial Statement: The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-67 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information related to budget, component school board, supporting schedules, and other statistics.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Covington, assets and deferred outflows of resources exceeded liabilities by \$12,056,620 at the close of the most recent fiscal year.

City of Covington's Net Position

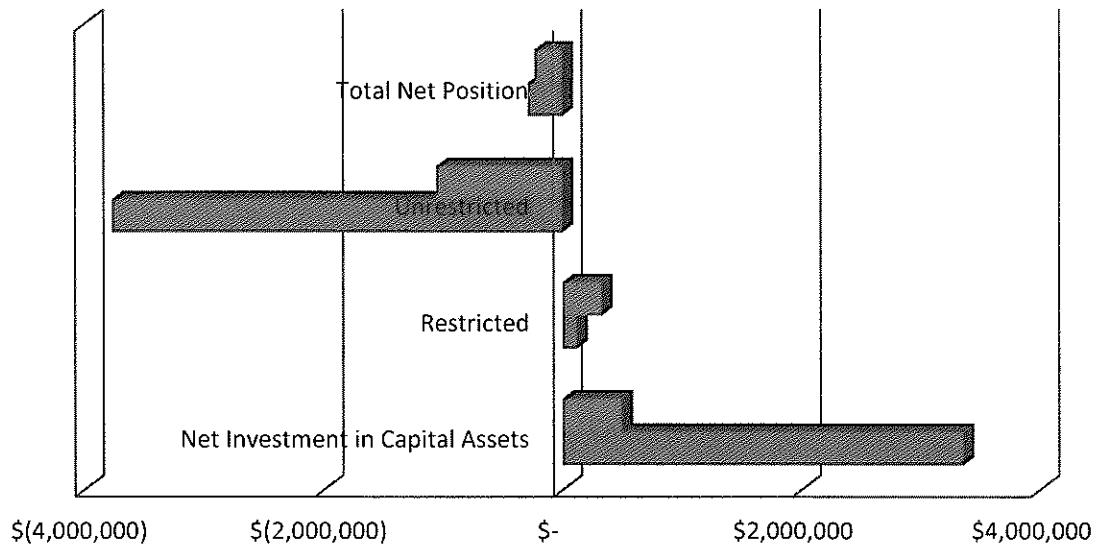
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$ 7,184,259	\$10,523,344	\$ 9,534,561	\$ 9,727,618	\$ 16,718,820	\$ 20,250,962
Capital assets	\$ 27,668,832	28,548,414	\$ 20,084,717	16,545,872	\$ 47,753,549	45,094,286
Total Assets	\$ 34,853,091	39,071,758	\$ 29,619,278	26,273,490	\$ 64,472,369	65,345,248
Deferred Outflows						
of Resources	\$ 335,299	58,087	\$ -	8,830	\$ 335,299	66,917
Liabilities:						
Current liabilities	\$ 2,613,564	2,648,327	\$ 1,550,105	1,480,048	\$ 4,163,669	4,128,375
Long-term liabilities	\$ 30,853,131	34,328,039	\$ 15,725,754	13,608,079	\$ 46,578,885	47,936,118
Total Liabilities	\$ 33,466,695	36,976,366	\$ 17,275,859	15,088,127	\$ 50,742,554	52,064,493
Deferred Inflows						
of Resources	\$ 2,008,494	2,383,679	\$ -	-	\$ 2,008,494	2,383,679
Net Position:						
Net investment						
in capital assets	\$ 3,354,323	495,923	\$ 8,984,782	7,832,605	\$ 12,339,105	8,328,528
Restricted	\$ 121,653	328,254	\$ 647,155	288,506	\$ 768,808	616,760
Unrestricted	\$ (3,762,775)	(1,054,377)	\$ 2,711,482	3,073,082	\$ (1,051,293)	2,018,705
Total Net Position	\$ (286,799)	\$ (230,200)	\$ 12,343,419	\$ 11,194,193	\$ 12,056,620	\$ 10,963,993

The City of Covington's net position reflects its investment in capital assets of \$3,354,323 (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City of Covington uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City of Covington's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Covington's net position in Governmental Activities \$121,653 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(3,762,775) is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors based on relation to future unfunded liabilities as noted in the Financial Highlights section that was previously presented.

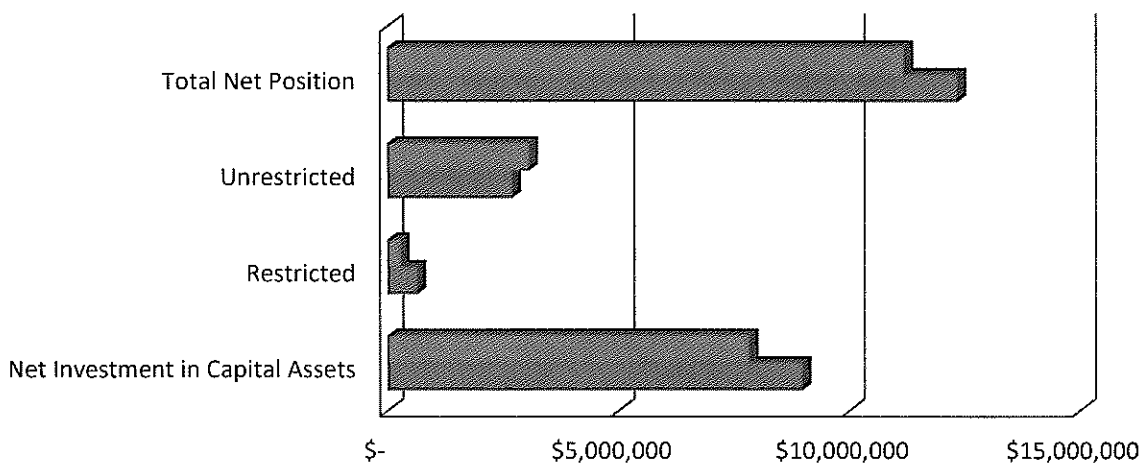
At the end of the current fiscal year, the City of Covington is able to report a positive balance in the reported category of net position for the government as a whole based on Business type Activities Net Position offsetting the negative balance on the Governmental Activities side.

Covington Governmental Activities Net Position June 30, 2013 & June 30, 2014



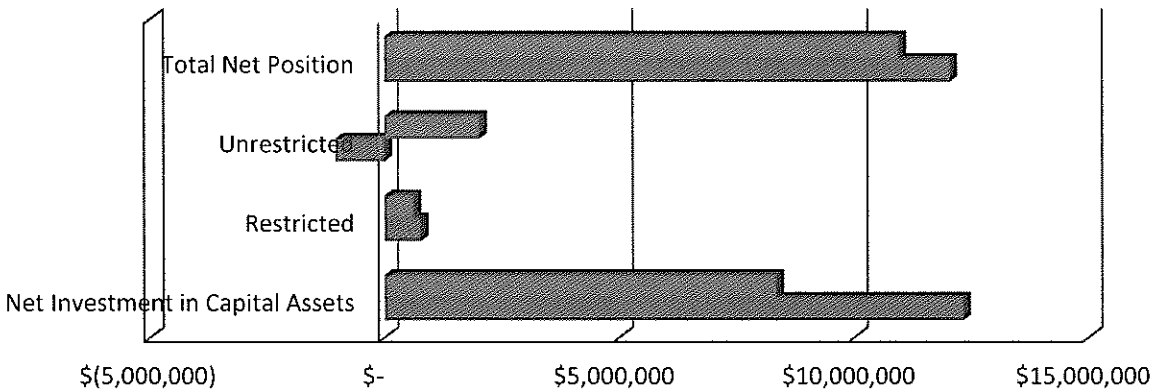
	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2013	\$495,923	\$328,254	\$(1,054,377)	\$(230,200)
2014	\$3,354,323	\$121,653	\$(3,762,775)	\$(286,799)

Covington Business Type Activities Net Position June 30, 2013 & June 30, 2014



	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2013	\$7,832,605	\$288,506	\$3,073,082	\$11,194,193
2014	\$8,984,782	\$647,155	\$2,711,482	\$12,343,419

City of Covington Total Net Position June 30, 2013 & June 30, 2014



	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
■ 2013	\$8,328,528	\$616,760	\$2,018,705	\$10,963,993
■ 2014	\$12,339,105	\$768,808	\$(1,051,293)	\$12,056,620

The City of Covington's total net position increased \$1,092,627 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities: During the current fiscal year, net position for governmental activities decreased \$56,599 from the prior fiscal year for an ending balance of \$(286,799). While the current economic conditions certainly had an impact on the City of Covington, expenses in Public Works, Education and Community Development were reduced during the fiscal year. Expenses increased in General Government Administration, Public Safety, Culture & Recreation, Judicial Administration, and Health & Welfare. The overall expenditure increase of \$357,391 was only offset by Revenue increases of \$327,411 from fiscal year 2013 to fiscal year 2014. Charges for Services and Property Taxes were the largest drivers in the increase while Other Taxes were impacted with the greatest decline at \$318,746 based on Machinery & Tools Taxes losses related to "green legislation".

Business-type Activities: For the City of Covington's business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$12,343,419. The total increase in net position for business-type activities (water and sanitation/sewer) was \$1,149,226 or 10.3% from the prior fiscal year. The growth, in part, is attributable to \$362,311 in additional revenues from charges for services and capital grants and contributions while expenditures in Water were reduced \$189,422 from the previous fiscal year.

City of Covington's Changes in Net Position

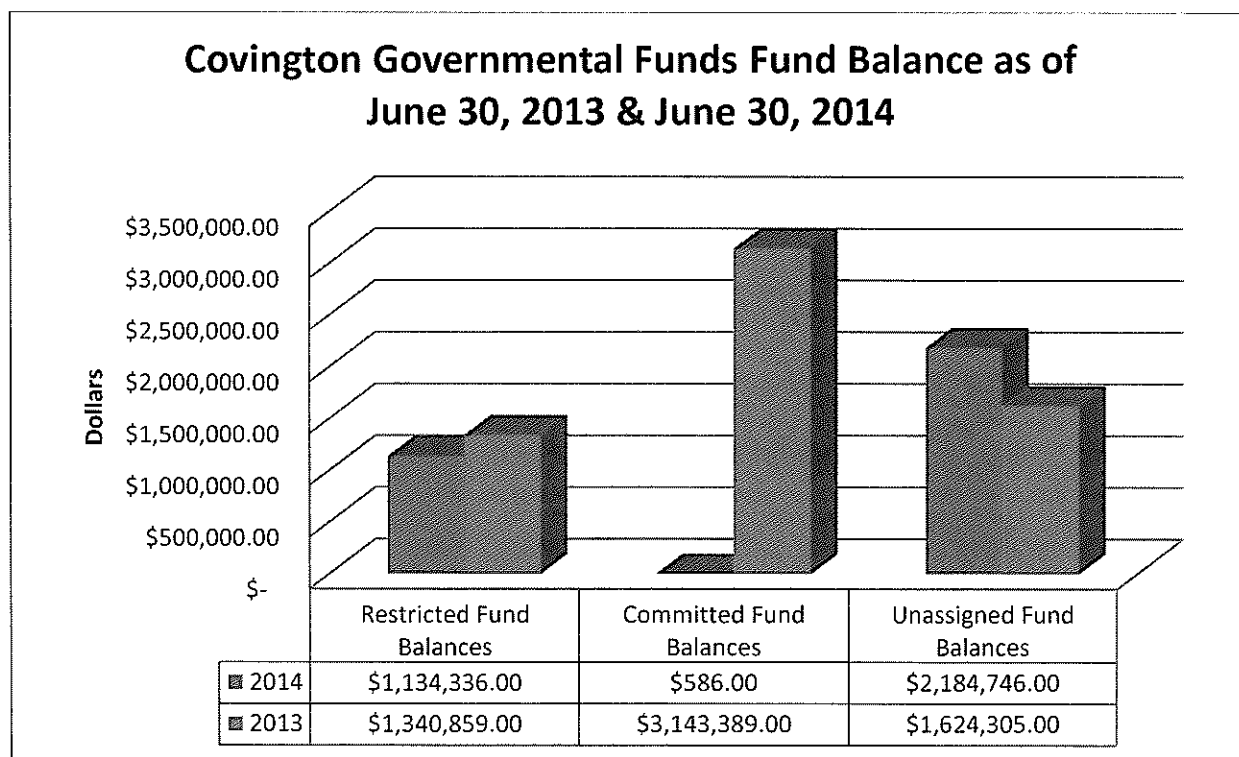
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>	<u>TOTAL</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program Revenues						
Charges for services	\$ 1,106,893	891,227	3,261,665	3,154,163	4,368,558	4,045,390
Operating grants and contributions	2,442,710	2,467,313			2,442,710	2,467,313
Capital grants and contributions	27,230	105,641	605,147	363,241	632,377	468,882
General Revenues:						
Property taxes	6,969,022	6,656,338			6,969,022	6,656,338
Other taxes	3,660,422	3,979,168			3,660,422	3,979,168
Grants and contributions not restricted to specific programs	899,272	893,226			899,272	893,226
Other	297,463	82,688	24,787	11,884	322,250	94,572
Total Revenues	15,403,012	15,075,601	3,891,599	3,529,288	19,294,611	18,604,889
Expenses:						
General government administration	1,569,154	1,401,609			1,569,154	1,401,609
Public safety	3,152,116	2,889,561			3,152,116	2,889,561
Public Works	2,702,655	2,837,163			2,702,655	2,837,163
Education	4,064,623	4,365,346			4,064,623	4,365,346
Culture and recreation	1,515,073	1,400,941			1,515,073	1,400,941
Interest on long-term debt	1,135,754	1,003,044			1,135,754	1,003,044
Judicial Administration	164,988	124,651			164,988	124,651
Health and Welfare	1,448,418	1,351,070			1,448,418	1,351,070
Community Development	77,718	99,723			77,718	99,723
Total Governmental Expenses	15,830,499	15,473,108			15,830,499	15,473,108
Water			1,114,862	1,304,304	1,114,862	1,304,304
Sanitation			1,256,623	1,206,873	1,256,623	1,206,873
Total Business Type Expenses		15,473,108	2,371,485	2,511,177	2,371,485	2,511,177
Total Expenses	15,830,499		2,371,485	2,511,177	18,201,984	17,984,285
Increase (decrease) in net position before transfers	(427,487)	(397,507)	1,520,114	1,018,111	1,092,627	620,604
Transfers	370,888	364,343	(370,888)	(364,343)		
Increase (decrease) in net position	(56,599)	\$ (33,194)	1,149,226	653,768	1,092,627	620,604
Net position – beginning (restated)	(230,200)	(197,036)	11,194,193	10,540,425	10,963,993	10,343,389
Net position – ending	(286,799)	\$ (230,230)	12,343,419	11,194,193	12,056,620	10,963,993

Financial Analysis of Governmental Funds

As noted earlier, the City of Covington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City of Covington's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Covington's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Covington itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Covington's Council.

At June 30, 2014, the City of Covington's governmental funds reported combined fund balances of \$3,319,668, a decrease of \$2,788,885 in comparison with the prior year which is mainly attributable to funds use for the permanent school financing project. Approximately 65.8% of this amount (\$2,184,746) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either: *non-spendable, restricted, committed, or assigned* to indicate that it is 1) legally required to be maintained intact \$1,012,683, 2) restricted for particular purposes \$121,653, 3) committed for particular purposes \$586.



The General Fund is the chief operating fund of the City of Covington. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,184,746 while total fund balance decreased to \$3,319,668. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 14.4 percent of total general fund expenditures, while total fund balance represents approximately 21.9 percent of that same amount.

The unassigned fund balance of the City of Covington's general fund increased \$560,441 during the current fiscal year. (See Note 21)

The school-capital reserve debt service fund, a major fund, had net a change decrease of \$3,142,803 in fund balance during the current fiscal year which put that fund balance at \$586. These funds were utilized for principal reduction in the VPSA GO Bond Refunding as well as the Mead Westvaco Machinery & Tools Tax refund that included \$580,963 from this fund.

The School Construction Fund (2007 IDA Lease Revenue Bond Reserve) increased \$78 to \$1,012,683 during the fiscal year closing June 30, 2014. This fund, along with the general fund and school-capital reserve debt fund comprise the total fund balance of \$3,319,668. The city will acquire the services of a registered municipal advisor to explore improved returns on the IDA Bond Reserve.

Proprietary Funds: The City of Covington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water Fund at the end of the fiscal year was \$1,877,700 and the Sewer Fund was \$833,782. The total change in unrestricted net position Sewer funds was a \$456,202 decrease while the Water fund unrestricted net position increased \$94,602. Total Net Position of Proprietary Funds increased \$1,149,226 from \$11,194,193 end of FY 2013 to \$12,343,419 end of FY 2014.

The Motor Vehicle Internal Service Fund was dissolved during the fiscal year and the accounting for those activities is covered under the Public Works Department using its own expenditure line items.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year, there were significant amendments to the original budgeted appropriations which included the Mead Westvaco Machinery & Tools refunding, regular and emergency services match grants, the city's match portion of the Maple Avenue Streetscape project, as well as an emergency storm drain repair.

Final budget compared to actual results. The most significant differences between estimated revenues and actual revenues were as follows:

Sanitation Waste Removal \$(118,673), Real Estate Taxes \$(55,908), Personal Property Taxes \$(37,126), Machinery & Tools Taxes \$(816,505), Local Sales & Use Taxes \$(47,885), Business License Taxes \$(37,041), Real & Public Service Corporation Taxes \$514,299, and Meals Taxes \$10,895.

The largest shortfall above, Personal Property Taxes/Machinery & Tools is directly impacted by the 2011 "green legislation" that has partially cleared legislative appeal processes, thus impacting taxable values during the current fiscal year as well as those going forward. It should be noted that the largest increase above is in the Real & Public Service Corporation Taxes which is attributed to the completion of the Mead Westvaco Boiler Project. Concurrently, the shortfall in Sales & Use and Business License Taxes can be attributed to completion of the boiler project.

The 2nd largest shortfall above, Sanitation Waste Removal, is attributed to a significant change in the rate fee structure. The issue has been recognized by management, and city council has enacted changes to the rate structure in an effort to recover these revenues as the former higher rates forced our largest commercial customers to seek the services elsewhere. Further, City Council has entered into an agreement with another locality to provide landfill services thus increasing total service revenues.

The City of Covington has worked very hard through the years to provide exceptional recreational activities, facilities, and cultural activities for the residents of the city, Alleghany County, and those that visit to compete athletically in the park system, or visit for a concert/arts function. General Fund monies have been expended and proportionally the meals taxes generated have made a significant contribution to overall revenue generation efforts.

Review of actual revenues and expenditures indicates that actual revenues for governmental funds General Fund were \$15,324,774 and expenditures for governmental funds General Fund were \$15,184,555.

The city's investment earnings remain slowed due to current economic conditions. However, recognition of the need to maximize earnings will result in a close look at the city's options through the services of a Registered Municipal Advisor including investment policy development.

Capital Assets and Debt Administration

Capital Asset: The City of Covington's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$47,753,549 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, the water treatment plant, and the wastewater treatment plant. The total increase in capital assets for the current fiscal year was approximately 5.9%.

City of Covington's Capital Assets

Capital Assets (net of depreciation)	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,955,871	\$ 1,955,871			\$ 1,955,871	\$ 1,955,871
Buildings	22,893,446	23,486,753			22,893,446	23,486,753
Machinery, equipment, and vehicles	2,125,049	2,374,017			2,125,049	2,374,017
Infrastructure	644,813	689,795			644,813	689,795
Construction in Progress	49,653	41,978			49,653	41,978
Construction in Progress Water			618,841	115,985	618,841	115,985
Water System			3,089,490	3,135,035	3,089,490	3,135,035
Construction in Progress Sewer			7,043,887	3,961,335	7,043,887	3,961,335
Sewer System			9,332,499	9,333,517	9,332,499	9,333,517
Total Capital Assets	27,668,832	28,548,414	20,084,717	16,545,872	47,753,549	45,094,286

Governmental Capital Assets value decreased based on an increase in accumulated depreciation.

Additional information on the City of Covington's capital assets can be found in Note 12 on pages 62-64 of this report.

City of Covington's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	Total
	2014	2013	2014	2013	2014	2013
	\$	\$			\$	\$
General Obligation Bonds	14,124,000	17,906,100			14,124,000	17,906,100
Deferred Amounts:						
Bond Premiums	496,278	-	693,259	720,990	1,189,537	720,990
On Refunding		-			-	
Discounts	(232,512)	(239,078)			(232,512)	(239,078)
Revenue Bonds	11,190,000	11,290,000	15,511,401	13,432,955	26,701,401	24,722,955
Capital Leases	84,725	166,161			84,725	166,161
Landfill Closure/Post Closure Liability	5,190,654	5,118,987			5,190,654	5,118,987
Other Obligations (Insurance & Leave Policies)	652,564	668,693	131,677	134,547	784,241	803,240
Total Long Term Debt	31,505,709	34,910,863	16,336,337	14,288,492	47,842,046	49,199,355

The City of Covington's total debt decreased by \$1,357,309 or (2.7%) during the current fiscal year. This decrease in debt was driven through the utilization of the School-Capital Reserve Debt Fund in the VPSA Bond refunding in Governmental Activities that offset an increase in Business-type Activity Debt.

The *Component Unit School Board* has long-term "Other Obligations" transactions related to compensated absences and Net OPEB Obligation in the amount of \$584,990 as of June 30, 2014. This obligation is an overall increase of \$796 compared to the previous fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the assessed value of taxable real estate. The current debt limitation for the City of Covington is \$27,401,664 which is significantly in excess of the City of Covington's outstanding general obligation debt of \$14,124,000. The legal margin for creation of additional debt is \$13,277,664 as of June 30, 2014.

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect the City of Covington and were considered in developing the 2014-2015 Fiscal Year Budget:

- The unemployment rate for the City of Covington remained at 8.9% on June 30, 2014, which is identical to the rate of 8.9% on June 30, 2013. While the unemployment rate has not increased, it is not expected to reach the pre- great recession levels in the upcoming fiscal year.
- There were no rate increases in any Business-Type Activity Funds although there will be a \$1.06 rate increase in the FY 2015-2016 Budget.
- Real Estate Taxes per \$100.00 of value were increased 2 cents from \$0.69 to \$0.71.
- Soft Billing for Rescue Squad Services (first full year of a new revenue source) was enacted by City Council and projected Revenue in excess of \$300,000 is budgeted this FY based on partial Fiscal Year 2013-2014 revenues.
- Health Insurance Costs for the city increased for the 2014-15 budget year by 10.1%.

- With the school General Obligation VPSA Bond Refunding, the city was able to achieve significant principal reduction as well as relatively level debt service payments in Governmental Activity debt obligation going forward to prevent “peak payments” in 15 to 20 years.
- The 2014-2015 General Fund Budget is built on \$16,996,572 of both revenues and expenditures. No unassigned fund balance was taken from 2013-2014 dollars to balance the 2014-2015 Budget.

The City of Covington receives substantial Machinery and Tools revenue and the percentage of those revenues is significant in the total local revenues realized by the city each year. Effective January 1, 2011, legislation enacted by the General Assembly, put law in to place that states “certified pollution control equipment and facilities” are exempt from state and local taxation. Currently, there are amended returns, appeals, and pending equipment exemption approval or denial related to Mead Westvaco. However, the city refunded \$613,024.22 during Fiscal Year 2013-14. The 2014-2015 Budget includes 2 additional refund payments in the amounts of \$380,416.95 and \$354,621.37. Going forward, the city will refund \$300,000 to \$400,000 in the 2015-2016 Budget. Mead Westvaco has filed what appears to be a final appeal with the State Tax Commissioner whom the city hopes will rule in its favor resulting in final resolution of this refunding. However, if ruled against, we anticipate additional costs in excess of \$500,000 of which we would attempt to cover through the budgeting process instead of Governmental Fund reductions. It should be noted that beginning in FY 2014-2015 Public Service Corporation revenues related to the Mead Westvaco Boiler project will increase and offset Machinery & Tools Tax losses. However, this funding stream is not taxable like Machinery & Tools because the real estate tax rate is used. Further, these *depreciable* assets will result in considerably less revenue over a period of 25 years.

The Performance Agreement related to the boiler project identified in the 2012-2013 Audit was identified to not be valid by the City’s Legal Counsel due to stipulations related to Machinery & Tools revenue minimums not being realized by the city as the boiler landed under the auspices of the State Corporation Commission-Public Service Corporation Commission. Thus the city has no financial obligation under the original agreement with Mead Westvaco that was drafted.

Requests for Information

This financial report is designed to provide a general overview of the City of Covington’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Central Accounting, 333 W. Locust Street, Covington, VA, 24426.

Basic Financial Statements

City of Covington, Virginia
Statement of Net Position
June 30, 2014

	Primary Government			Component Unit
	Governmental	Business-type	Total	School Board
	Activities	Activities		
ASSETS				
Cash and cash equivalents	\$ 2,427,950	\$ 3,176,869	\$ 5,604,819	\$ 704,007
Cash in custody of others	-	-	-	89,112
Investments	60,329	-	60,329	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,461,197	-	2,461,197	-
Other local taxes receivable	117,978	-	117,978	-
Accounts receivable	52,369	454,330	506,699	6,385
Due from component unit	160,570	-	160,570	-
Intergovernmental receivable	891,183	90,302	981,485	224,170
Inventories	-	-	-	8,077
Prepaid items	-	-	-	67,928
Restricted assets:				
Cash and cash equivalents	1,012,683	708,335	1,721,018	-
Investments	-	5,104,725	5,104,725	-
Capital assets not being depreciated:				
Land	1,955,871	-	1,955,871	89,663
Construction in progress	49,653	7,662,728	7,712,381	-
Capital assets, net of accumulated depreciation:				
Buildings and improvements	22,893,446	-	22,893,446	1,506,001
Machinery, equipment, and vehicles	2,125,049	-	2,125,049	271,650
Infrastructure	644,813	12,421,989	13,066,802	-
Total Assets	\$ 34,853,091	\$ 29,619,278	\$ 64,472,369	\$ 2,966,993
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	\$ 335,299	\$ -	\$ 335,299	\$ -
LIABILITIES				
Accounts payable	\$ 176,559	\$ 769,009	\$ 945,568	\$ -
Accrued liabilities	161,447	28,012	189,459	792,144
Tax refunds payable	1,071,541	-	1,071,541	-
Retainage payable	-	25,566	25,566	-
Customers' deposits	-	58,742	58,742	-
Accrued interest payable	539,535	58,193	597,728	-
Due to primary government	-	-	-	160,570
Deposits held in escrow	11,904	-	11,904	-
Noncurrent liabilities:				
Due within one year	652,578	610,583	1,263,161	281,168
Due in more than one year	30,853,131	15,725,754	46,578,885	303,822
Total Liabilities	\$ 33,466,695	\$ 17,275,859	\$ 50,742,554	\$ 1,537,704
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - property taxes	\$ 2,008,494	\$ -	\$ 2,008,494	\$ -
NET POSITION				
Net investment in capital assets	\$ 3,354,323	\$ 8,984,782	\$ 12,339,105	\$ 1,867,314
Restricted:				
Transportation enhancement grants	121,653	-	121,653	-
Debt Service	-	647,155	647,155	-
Unrestricted (deficit)	(3,762,775)	2,711,482	(1,051,293)	(438,025)
Total Net Position	\$ (286,799)	\$ 12,343,419	\$ 12,056,620	\$ 1,429,289

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating		Capital	Primary Government		
			Grants and Contributions	Grants and Contributions		Governmental Activities	Business-type Activities	Component Unit
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 1,569,154	\$ 969	\$ 173,415	\$ -		\$ (1,394,770)	\$ (1,394,770)	
Judicial administration	164,988	-	-	-		(164,988)	(164,988)	
Public safety	3,152,116	348,962	451,059	11,154		(2,340,941)	(2,340,941)	
Public works	2,702,655	678,798	968,496	-		(1,055,361)	(1,055,361)	
Health and welfare	1,448,418	-	849,740	-		(598,678)	(598,678)	
Education	4,064,623	-	-	-		(4,064,623)	(4,064,623)	
Parks, recreation, and cultural	1,515,073	78,134	-	16,076		(1,420,863)	(1,420,863)	
Community development	77,718	30	-	-		(77,688)	(77,688)	
Interest on long-term debt	1,135,754	-	-	-		(1,135,754)	(1,135,754)	
Total governmental activities	\$ 15,830,499	\$ 1,106,893	\$ 2,442,710	\$ 27,230		\$ (12,253,666)	\$ (12,253,666)	
Business-type activities:								
Water	\$ 1,114,862	\$ 1,571,504	\$ -	\$ 2,357		\$ 458,999	\$ 458,999	
Sewer	1,256,623	1,690,161	-	602,790		1,036,328	1,036,328	
Total business-type activities	\$ 2,371,485	\$ 3,261,665	\$ -	\$ 605,147		\$ 1,495,327	\$ 1,495,327	
Total primary government	\$ 18,201,984	\$ 4,368,558	\$ 2,442,710	\$ 632,377		\$ (12,253,666)	\$ (10,758,339)	
COMPONENT UNIT:								
School Board	\$ 10,971,378	\$ 96,701	\$ 6,630,925	\$ -		\$ -	\$ -	\$ (4,243,752)
General revenues:								
General property taxes						\$ 6,969,022	\$ -	\$ 6,969,022
Other local taxes:								
Local sales and use taxes						1,262,115	-	1,262,115
Consumers' utility taxes						433,112	-	433,112
Consumption taxes						26,111	-	26,111
Business license taxes						562,959	-	562,959
Motor vehicle licenses						137,197	-	137,197
Bank stock taxes						158,923	-	158,923
Recordation taxes						26,070	-	26,070
Hotel and motel room taxes						9,391	-	9,391
Restaurant food taxes						940,895	-	940,895
Tobacco taxes						103,649	-	103,649
Unrestricted revenues from use of money and property						69,695	8,903	78,598
Miscellaneous						227,768	15,884	243,652
Payments from the City of Covington						-	-	-
Grants and contributions not restricted to specific programs						899,272	-	899,272
Transfers						370,888	(370,888)	-
Total general revenues and transfers						\$ 12,197,067	\$ (346,101)	\$ 11,850,966
Change in net position								\$ 4,152,968
Net position - beginning, as restated						\$ (56,599)	\$ 1,149,226	\$ 1,092,627
Net position - ending						(230,200)	11,194,193	10,963,993
Net position - ending						\$ (286,799)	\$ 12,343,419	\$ 12,056,620
Net position - ending								\$ 1,429,289

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 2,427,364	\$ 586	\$ -	\$ 2,427,950
Investments	60,329	-	-	60,329
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,461,197	-	-	2,461,197
Other local taxes receivables	117,978	-	-	117,978
Accounts receivable	52,369	-	-	52,369
Due from component unit	160,570	-	-	160,570
Intergovernmental receivable	891,183	-	-	891,183
Restricted assets:				
Cash and cash equivalents	-	-	1,012,683	1,012,683
Total assets	<u>\$ 6,170,990</u>	<u>\$ 586</u>	<u>\$ 1,012,683</u>	<u>\$ 7,184,259</u>
LIABILITIES				
Accounts payable	\$ 176,559	\$ -	\$ -	\$ 176,559
Accrued liabilities	161,447	-	-	161,447
Tax refunds payable	1,071,541	-	-	1,071,541
Deposits held in escrow	11,904	-	-	11,904
Total liabilities	<u>\$ 1,421,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,421,451</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	\$ 2,443,140	\$ -	\$ -	\$ 2,443,140
	<u>\$ 2,443,140</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,443,140</u>
FUND BALANCES				
Restricted:				
School construction	\$ -	\$ -	\$ 1,012,683	\$ 1,012,683
Transportation enhancement grants	121,653	-	-	121,653
Committed:				
Debt service funds	-	586	-	586
Unassigned	2,184,746	-	-	2,184,746
Total fund balances	<u>\$ 2,306,399</u>	<u>\$ 586</u>	<u>\$ 1,012,683</u>	<u>\$ 3,319,668</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,170,990</u>	<u>\$ 586</u>	<u>\$ 1,012,683</u>	<u>\$ 7,184,259</u>

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 3,319,668
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 1,955,871	
Buildings and improvements	22,893,446	
Machinery, equipment, and vehicles	2,125,049	
Infrastructure	644,813	
Construction in progress	49,653	27,668,832

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.

Unavailable revenue - property taxes	434,646
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Certain items reported as expenditures in the fund statements are deferred and shown as deferred inflows of resources on the statement of net position.

Deferred charges on refunding	335,299
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

General obligation bonds	\$ (14,124,000)	
Lease revenue bonds	(11,190,000)	
Capital lease	(84,725)	
Unamortized premium	(496,278)	
Unamortized discount	232,512	
Compensated absences	(324,771)	
Landfill accrued closure/post-closure costs	(5,190,654)	
Accrued interest payable	(539,535)	
Net OPEB obligation	(327,793)	(32,045,244)

Net position of governmental activities	\$ (286,799)
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The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	<u>General</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
REVENUES				
General property taxes	\$ 6,883,416	\$ -	\$ -	\$ 6,883,416
Other local taxes	3,660,422	-	-	3,660,422
Permits, privilege fees, and regulatory licenses	11,102	-	-	11,102
Fines and forfeitures	7,488	-	-	7,488
Revenue from the use of money and property	58,339	11,278	78	69,695
Charges for services	1,088,303	-	-	1,088,303
Miscellaneous	227,768	-	-	227,768
Recovered costs	18,724	-	-	18,724
Intergovernmental:				
Covington City School Board	-	300,000	-	300,000
Commonwealth	3,188,532	-	-	3,188,532
Federal	180,680	-	-	180,680
Total revenues	<u>\$ 15,324,774</u>	<u>\$ 311,278</u>	<u>\$ 78</u>	<u>\$ 15,636,130</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,442,101	\$ -	\$ -	\$ 1,442,101
Judicial administration	164,988	-	-	164,988
Public safety	3,000,898	-	-	3,000,898
Public works	2,470,238	-	-	2,470,238
Health and welfare	1,455,490	-	-	1,455,490
Education	3,779,521	-	-	3,779,521
Parks, recreation, and cultural	1,544,455	-	-	1,544,455
Community development	85,394	-	-	85,394
Nondepartmental	135,264	-	-	135,264
Capital projects	-	-	-	-
Debt service:				
Principal retirement	314,436	15,279,100	-	15,593,536
Interest and other fiscal charges	791,770	98,343	-	890,113
Bond issuance costs	-	71,526	-	71,526
Total expenditures	<u>\$ 15,184,555</u>	<u>\$ 15,448,969</u>	<u>\$ -</u>	<u>\$ 30,633,524</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 140,219</u>	<u>\$ (15,137,691)</u>	<u>\$ 78</u>	<u>\$ (14,997,394)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 968,236	\$ 560,719	\$ -	\$ 1,528,955
Transfers out	(582,580)	(580,963)	-	(1,163,543)
Issuance of general obligation refunding bonds	-	11,630,000	-	11,630,000
Premium on bond issuance	-	496,278	-	496,278
Payment to refunding bond escrow agent	(172,035)	(111,146)	-	(283,181)
Total other financing sources (uses)	<u>\$ 213,621</u>	<u>\$ 11,994,888</u>	<u>\$ -</u>	<u>\$ 12,208,509</u>
Net change in fund balances	<u>\$ 353,840</u>	<u>\$ (3,142,803)</u>	<u>\$ 78</u>	<u>\$ (2,788,885)</u>
Fund balances - beginning, as restated	<u>1,952,559</u>	<u>3,143,389</u>	<u>1,012,605</u>	<u>6,108,553</u>
Fund balances - ending	<u>\$ 2,306,399</u>	<u>\$ 586</u>	<u>\$ 1,012,683</u>	<u>\$ 3,319,668</u>

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2014

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	(2,788,885)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded the capital outlays in the current period.

Capital asset additions	\$ 284,903		
Depreciation expense	(1,164,485)		(879,582)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		85,606
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of general obligation bonds	\$ (11,630,000)		
Plus: Issuance premium (to be amortized against interest expense)	(496,278)		
Less: Payment to bond escrow agent	283,181		
(Increase) decrease in landfill closure and post-closure monitoring costs	(71,667)		
Principal Payments:			
General obligation bonds	15,412,100		
Lease revenue bond	100,000		
Capital lease	81,436		3,678,772

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

(Increase) decrease in compensated absences	\$ 41,834		
(Increase) decrease in net OPEB obligation	(25,705)		
Amortization of bond discount	(6,566)		
Amortization of deferred amount on refundings	(5,969)		
(Increase) decrease in accrued interest payable	(161,580)		(157,986)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

5,476

Change in net position of governmental activities	\$	(56,599)
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The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2014

	Enterprise Funds			Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund	Total	Fund
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,769,594	\$ 1,407,275	\$ 3,176,869	\$ -
Accounts receivable, net of allowance for uncollectibles	267,824	186,506	454,330	-
Due from other governmental units	-	90,302	90,302	-
Restricted current assets:				
Cash and cash equivalents	391,010	317,325	708,335	-
Investments	5,104,725	-	5,104,725	-
Total current assets	\$ 7,533,153	\$ 2,001,408	\$ 9,534,561	\$ -
Noncurrent assets:				
Capital assets:				
Utility plant in service	\$ 8,317,118	\$ 14,297,561	\$ 22,614,679	\$ -
Less: accumulated depreciation	(5,227,628)	(4,965,062)	(10,192,690)	-
Construction in progress	618,841	7,043,887	7,662,728	-
Total capital assets	\$ 3,708,331	\$ 16,376,386	\$ 20,084,717	\$ -
Total assets	\$ 11,241,484	\$ 18,377,794	\$ 29,619,278	\$ -
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 20,367	\$ 748,642	\$ 769,009	\$ -
Wages payable	14,959	13,053	28,012	-
Customers' deposits	31,957	26,785	58,742	-
Accrued interest payable	58,193	-	58,193	-
Retainage payable	-	25,566	25,566	-
Compensated absences - current portion	20,984	24,369	45,353	-
Bonds payable - current portion	152,730	412,500	565,230	-
Total current liabilities	\$ 299,190	\$ 1,250,915	\$ 1,550,105	\$ -
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 5,935,529	\$ 9,703,901	\$ 15,639,430	\$ -
Net OPEB obligation	39,281	31,926	71,207	-
Compensated absences	6,994	8,123	15,117	-
Total noncurrent liabilities	\$ 5,981,804	\$ 9,743,950	\$ 15,725,754	\$ -
Total liabilities	\$ 6,280,994	\$ 10,994,865	\$ 17,275,859	\$ -
NET POSITION				
Net investment in capital assets	\$ 2,724,797	\$ 6,259,985	\$ 8,984,782	\$ -
Restricted for debt service and bond covenants	357,993	289,162	647,155	-
Unrestricted	1,877,700	833,782	2,711,482	-
Total net position	\$ 4,960,490	\$ 7,382,929	\$ 12,343,419	\$ -

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Enterprise Funds			Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund	Total	Fund
OPERATING REVENUES				
Charges for services:				
Water revenues	\$ 1,558,908	\$ -	\$ 1,558,908	\$ -
Sewer revenues	-	1,673,441	1,673,441	-
Penalties	12,596	16,720	29,316	-
Miscellaneous	7,813	8,071	15,884	-
Total operating revenues	\$ 1,579,317	\$ 1,698,232	\$ 3,277,549	\$ -
OPERATING EXPENSES				
Salaries and wages	\$ 373,599	\$ 321,418	\$ 695,017	\$ -
Fringes	183,078	173,228	356,306	-
Contracted services	55,645	76,881	132,526	-
Other charges	320,625	263,590	584,215	-
Purchase of equipment	6,090	14,092	20,182	-
Lease/rent of equipment	1,163	399	1,562	-
OPEB expense	2,880	2,415	5,295	-
Depreciation	167,119	362,755	529,874	-
Contingencies	-	34,852	34,852	-
Total operating expenses	\$ 1,110,199	\$ 1,249,630	\$ 2,359,829	\$ -
Operating income (loss)	\$ 469,118	\$ 448,602	\$ 917,720	\$ -
NONOPERATING REVENUES (EXPENSES)				
Connection fees	\$ 2,357	\$ 2,100	\$ 4,457	\$ -
Interest income	8,247	656	8,903	-
Interest expense	(4,663)	(6,993)	(11,656)	-
Total nonoperating revenues (expenses)	\$ 5,941	\$ (4,237)	\$ 1,704	\$ -
Income (loss) before contributions and transfers	\$ 475,059	\$ 444,365	\$ 919,424	\$ -
Capital contributions and construction grants	\$ -	\$ 600,690	\$ 600,690	\$ -
Transfers in	-	165,531	165,531	5,476
Transfers out	(318,152)	(218,267)	(536,419)	-
Change in net position	\$ 156,907	\$ 992,319	\$ 1,149,226	\$ 5,476
Net position - beginning	4,803,583	6,390,610	11,194,193	(5,476)
Net position - ending	\$ 4,960,490	\$ 7,382,929	\$ 12,343,419	\$ -

The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Enterprise Funds			Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,582,930	\$ 1,679,222	\$ 3,262,152	\$ -
Payments to suppliers	(383,491)	(389,814)	(773,305)	-
Payments to employees	(566,393)	(493,998)	(1,060,391)	-
Net cash provided by (used for) operating activities	\$ 633,046	\$ 795,410	\$ 1,428,456	\$ -
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	\$ (318,152)	\$ (218,267)	\$ (536,419)	\$ -
Transfers from other funds	-	165,531	165,531	5,476
Net cash provided by (used for) noncapital financing activities	\$ (318,152)	\$ (52,736)	\$ (370,888)	\$ 5,476
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of utility plant	\$ (469,360)	\$ (3,260,778)	\$ (3,730,138)	\$ -
Principal payments on bonds	(140,623)	(460,584)	(601,207)	-
Capital grants	-	574,898	574,898	-
Proceeds from indebtedness	-	2,679,653	2,679,653	-
Bond issuance costs	(9,500)	-	(9,500)	-
Interest payments	(213,051)	(3,390)	(216,441)	-
Connection fees	2,357	2,100	4,457	-
Net cash provided by (used for) capital and related financing activities	\$ (830,177)	\$ (468,101)	\$ (1,298,278)	\$ -
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	\$ 8,247	\$ 656	\$ 8,903	\$ -
Net increase (decrease) in cash and cash equivalents	\$ (507,036)	\$ 275,229	\$ (231,807)	\$ 5,476
Cash and cash equivalents - beginning	7,772,365	1,449,371	9,221,736	-
Cash and cash equivalents - ending	\$ 7,265,329	\$ 1,724,600	\$ 8,989,929	\$ 5,476
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 469,118	\$ 448,602	\$ 917,720	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 167,119	\$ 362,755	\$ 529,874	\$ -
Net OPEB obligation	2,880	2,415	5,295	-
(Increase) decrease in accounts receivable	4,673	(17,632)	(12,959)	-
Increase (decrease) in customer deposits	(1,060)	(1,378)	(2,438)	-
Increase (decrease) in accounts payable	32	-	32	-
Increase (decrease) in wages payable	(433)	(470)	(903)	(5,476)
Increase (decrease) in compensated absences	(9,283)	1,118	(8,165)	-
Total adjustments	\$ 163,928	\$ 346,808	\$ 510,736	\$ (5,476)
Net cash provided by (used for) operating activities	\$ 633,046	\$ 795,410	\$ 1,428,456	\$ (5,476)

The notes to the financial statements are an integral part of this statement.

CITY OF COVINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies:

The financial statements of the City conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The City of Covington, Virginia is a municipal corporation governed by an elected five-member City Council. The accompanying 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. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - The City has no blended component units.

Discretely Presented Component Units - The component unit columns in the financial statements include the financial data of the City's discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from the City.

The Covington City School Board operates the elementary and secondary public schools in the City. School Board members are appointed by the City. The School Board is fiscally dependent upon the City because the City approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board is presented as a governmental fund type and included herein. No separate report is issued for the School Board.

Jointly Governed Organizations - The City is represented in the governing body of the Alleghany Highlands Community Service Board as well as the Charles Pinckney Jones Memorial Library.

The City along with the County of Alleghany, the Towns of Clifton Forge and Iron Gate participate in supporting the Alleghany Highlands Community Service Board. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions.

The City participates in the Charles Pinckney Jones Memorial Library. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City's contribution during fiscal year 2014 was \$110,598.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component unit. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense, the cost of "using up" capital assets, in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are 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*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. 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 and fiduciary 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.

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. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in other funds.

The School Construction Fund is the City's only major *Capital Projects Fund*. It accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments.

The School Debt Service Reserve Fund is the City's only major *Debt Service Fund*. It accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest. In addition, it is used to report financial resources being accumulated for future debt service.

The government reports the following internal service funds:

The Motor Vehicle internal service fund accounts for the financing of goods and services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The City closed this fund into the General Fund during fiscal year 2014 and will not be presented in subsequent years.

The government reports the following major proprietary funds:

The City operates a sewage collection and treatment plant and a water filtration and distribution system. The activities of the systems are accounted for in the Water and Sewer Funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund and the internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and Collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act").

Investments for the government, as well as for its component unit, are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Real estate taxes are payable on December 5th and June 5th. Personal property taxes are due and collectible annually on December 5th and June 5th. The City bills and collects its own property taxes.

4. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$76,893 at June 30, 2014 and is comprised solely of property taxes.

5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

6. Capital Assets (Continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

Property, plant, and equipment and infrastructure of the primary government, as well as of the component unit, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Infrastructure	20-40
Machinery and equipment	4-30

7. 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 Government Accounting Standards No. 16, Accounting for Compensated Absences, 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 it is estimated will be taken as "terminal leave" prior to retirement. The City accrues salary-related payments associated with the payment of compensated absences.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

8. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

9. Fund Equity

The City reports fund balance in accordance with GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaid expenditures) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

Committed Fund Balance Policy:

The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the City Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance Policy:

The City Council has authorized the City Manager or Finance Director as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

9. Fund Equity (Continued)

Minimum Unassigned Fund Balance Policy:

The City will make every effort to maintain an unassigned fund balance in the general fund equal to or greater than 10% expenditures/operating revenues. The City considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances.

Resource Flow Policy:

When fund balance resources are available for a specific purpose in more than one classification, it is the City's policy to use the most restrictive funds first in the following order: restricted, committed, assigned and unassigned, as they are needed.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditures/expense) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources.

11. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

11. Net Position (Continued)

The City's net position is classified as follows:

Net Investment in Capital Assets - This category represents the net value of capital assets (property, plant, and equipment less accumulated depreciation) reduced by the debt incurred to acquire or construct the asset.

Restricted- This category includes resources for which the City is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted - Unrestricted net position represents resources derived from charges to customers for goods received, services rendered or privileges provided, operating grants and contributions, and capital grants and contributions. These resources are used for transactions relating to the operations of the City and may be used at the City's discretion to meet current expenses for any lawful purposes.

12. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g. restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Note 2 - Stewardship, Compliance, and Accountability:

A. Budgetary Information

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: General Fund and the School Operating Fund.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 2 - Stewardship, Compliance, and Accountability: (Continued)

A. Budgetary Information (Continued)

4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the City Council can revise the appropriation by function. The City Manager is authorized to transfer budgeted amounts within general government activities or departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund. The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all City units. The City's practice is to appropriate Capital Projects by Project.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.
9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the City's accounting system.

B. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2014, there were no departments that had expenditures in excess of appropriations.

C. Deficit Fund Equity

At June 30, 2014, there were no funds with deficit fund equity.

Note 3 - Deposits and Investments:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporations (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 3 - Deposits and Investments: (Continued)

Investments

Statutes authorize the City and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2014 and June 30, 2013, the City had 1,176 shares of MetLife Trust stock valued at a \$51.30 and \$40.59 per share for a total value of \$60,329 and \$47,734, respectively.

The City's rated debt investments as of June 30, 2014 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

City's Rated Debt Investment Values	
Rated Debt Investments	Fair Quality Ratings
	AAAm
State Non-arbitrage Pool (SNAP)	\$ 5,104,725

External Investment Pools

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission.

The fair value of the positions in the external investment pools (State Non-Arbitrage Pool) is the same as the value of the pool shares.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 4 - Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	Primary Government		Component Unit
	Governmental	Business-type	School Board
<u>Commonwealth of Virginia:</u>			
Local sales tax	\$ 212,345	\$ -	\$ -
State sales tax	-	-	161,810
Non-categorical aid	327,384	-	-
Categorical aid - shared expenses	13,034	-	-
Categorical aid - Comprehensive Services Act	276,454	-	-
Categorical aid - VPA	10,505	-	-
Categorical aid - other	30,159	90,302	-
<u>Federal Government:</u>			
Categorical aid - VPA	9,621	-	-
Categorical aid - other	11,681	-	62,360
Totals	<u>\$ 891,183</u>	<u>\$ 90,302</u>	<u>\$ 224,170</u>

Note 5 - Interfund Transfers:

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Fund	Transfers In	Transfers Out
Primary Government:		
General Fund	\$ 968,236	\$ 582,580
Water Fund	-	318,152
Sewer Fund	165,531	218,267
Motor Vehicle Internal Serv. Fund	5,476	-
School Debt Reserve Fund	560,719	580,963
Total	<u>\$ 1,699,962</u>	<u>\$ 1,699,962</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014Note 6 - Long-Term Obligations:Primary Government - Governmental Activities Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2014:

	Balance July 1, 2013	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2014
General obligation bonds	\$ 17,906,100	\$ 11,630,000	\$ (15,412,100)	\$ 14,124,000
Deferred amounts:				
Premium	-	496,278	-	496,278
Discounts	(239,078)	-	6,566	(232,512)
Lease revenue bond	11,290,000	-	(100,000)	11,190,000
Capital lease (note 7)	166,161	-	(81,436)	84,725
Landfill closure/ post-closure liability	5,118,987	71,667	-	5,190,654
Compensated absences	366,605	233,120	(274,954)	324,771
Net OPEB obligation	302,088	51,825	(26,120)	327,793
Total	<u>\$ 34,910,863</u>	<u>\$ 12,482,890</u>	<u>\$ (15,888,044)</u>	<u>\$ 31,505,709</u>

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	General Obligation Bonds		Lease Revenue Bond	
	Principal	Interest	Principal	Interest
2015	\$ 227,000	\$ 663,660	\$ 100,000	\$ 510,038
2016	431,000	574,712	100,000	506,038
2017	456,000	553,965	100,000	502,038
2018	480,000	532,208	100,000	498,038
2019	509,000	509,088	100,000	494,038
2020-2024	2,981,000	2,173,592	500,000	2,408,875
2025-2029	3,545,000	1,545,854	685,000	2,293,553
2030-2034	910,000	1,032,431	4,380,000	1,760,506
2035-2039	1,495,000	848,816	5,125,000	592,578
2040-2041	3,090,000	134,375	-	-
Totals	<u>\$ 14,124,000</u>	<u>\$ 8,568,701</u>	<u>\$ 11,190,000</u>	<u>\$ 9,565,700</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 6 - Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:							
GO Refunding Bond	3.92%	6/17/2006	2028	\$133,000-\$226,000 a+	\$ 3,232,000	\$ 2,494,000	\$ 137,000
VPSA GO Refunding Bond	5.05%-4.30%	11/21/2013	2041	\$90,000-\$1,580,000 a+	11,630,000	11,630,000	90,000
Total General Obligation Bonds						<u>\$ 14,124,000</u>	<u>\$ 227,000</u>
Lease Revenue Bond:							
Lease Revenue Bond	4.00%-4.50%	12/1/2007	2039	\$100,000 a+	\$ 11,490,000	\$ 11,190,000	\$ 100,000
Deferred Amount:							
Unamortized Discount					\$ (274,460)	\$ (232,512)	\$ (6,566)
Unamortized Premium					496,278	496,278	3,841
Total Deferred Amounts						<u>\$ 263,766</u>	<u>\$ (2,725)</u>
Other Obligations:							
Capital Lease (Note 7)	4.04%	3/16/2005	2015	\$88,149 a	\$ 731,128	\$ 84,725	\$ 84,725
Compensated Absences						324,771	243,578
Net OPEB Obligation						327,793	-
Landfill Closure/Post-closure liability						5,190,654	-
Total Other Obligations						<u>\$ 5,927,943</u>	<u>\$ 328,303</u>
Total Long-Term Obligations						<u>\$ 31,505,709</u>	<u>\$ 652,578</u>

(a+) - annual principal installments shown; does not include semi-annual interest installments

(a) - annual installment including principal and interest

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014Note 6 - Long-Term Obligations: (Continued)Primary Government - Business-type Activities Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2014:

	Balance July 1, 2013	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2014
Revenue bonds	\$ 13,432,955	\$ 2,679,653	\$ (601,207)	\$ 15,511,401
Deferred amount:				
Premium	720,990	-	(27,731)	693,259
Net OPEB obligation	65,912	10,675	(5,380)	71,207
Compensated absences	68,635	-	(8,165)	60,470
Total	\$ 14,288,492	\$ 2,690,328	\$ (642,483)	\$ 16,336,337

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	Revenue Bonds			
	Water		Sewer	
	Principal	Interest	Principal	Interest
2015	\$ 125,000	\$ 231,243	\$ 412,500	\$ -
2016	130,000	227,034	575,000	-
2017	135,000	222,993	575,000	-
2018	135,000	218,374	575,000	-
2019	145,000	211,999	575,000	-
2020-2024	825,000	957,203	2,875,000	-
2025-2029	1,025,000	755,469	2,875,000	-
2030-2034	1,285,000	495,789	1,653,901	-
2035-2039	1,590,000	182,811	-	-
Totals	\$ 5,395,000	\$ 3,502,915	\$ 10,116,401	\$ -

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 6 - Long-Term Obligation: (Continued)

Primary Government - Business-type Activities Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bonds:							
Revenue Bond	0.00%	12/1/2010	2031	\$250,000 a	\$ 5,000,000	\$ 4,494,251	\$ 250,000
Revenue Bond	0.00%	5/10/2012	2032	\$162,500-325,000 a	6,500,000	5,622,150	162,500
Revenue Bond	2.04-4.83%	4/4/2013	2039	\$125,000-345,000 a+	5,395,000	5,395,000	125,000
Total Revenue Bonds						<u>\$ 15,511,401</u>	<u>\$ 537,500</u>
Deferred Amount:							
Unamortized Premium					\$ 720,990	<u>\$ 693,559</u>	<u>\$ 27,730</u>
Other Obligations:							
Compensated Absences						\$ 60,470	\$ 45,353
Net OPEB Obligation						<u>71,207</u>	<u>-</u>
Total Other Obligations						<u>\$ 131,677</u>	<u>\$ 45,353</u>
Total Long-Term Obligations						<u>\$ 16,336,637</u>	<u>\$ 610,583</u>
(a+) - annual principal installments shown; does not include semi-annual interest installments							
(a) - annual principal installments shown; no interest							

Note 7 - Capital Lease:

Primary Government:

The City has entered into a lease agreement as lessee for the financing of the acquisition of a fire truck. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

	<u>Fire Truck</u>
Machinery and equipment	\$ 731,128
Less: Accumulated depreciation	<u>(679,048)</u>
Net Capital Asset	<u>\$ 52,080</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7 - Capital Lease: (Continued)

Primary Government: (Continued)

The future minimum lease obligation and the net present value of minimum lease payments as of June 30, 2014, were as follows:

Fiscal Year Ended	Fire Truck
2015	
Total minimum lease payments	\$ 88,149
Less: amount representing interest	\$ 88,149
	(3,424)
Present value of minimum lease payments	<u>\$ 84,725</u>

Note 8 - Long-Term Obligations-Component Unit School Board:

Discretely Presented Component Unit - School Board-Indebtedness:

The following is a summary of long-term obligation transactions of the School Board for the year ended June 30, 2014:

	Balance July 1, 2013	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2014
Compensated absences	\$ 385,194	\$ 278,592	\$ (288,896)	\$ 374,890
Net OPEB obligation	200,000	68,200	(58,100)	210,100
	<u>\$ 585,194</u>	<u>\$ 346,792</u>	<u>\$ (346,996)</u>	<u>\$ 584,990</u>

Details of long-term indebtedness:

	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:		
Compensated absences	\$ 374,890	\$ 281,168
Net OPEB obligation	210,100	-
Total Long-term Obligations	<u>\$ 584,990</u>	<u>\$ 281,168</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Pension Plan:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees - Plan 1, Plan 2, and, Hybrid. Each plan has different eligibility and benefit structures as set out below:

VRS – PLAN 1

1. **Plan Overview** - VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
2. **Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
3. **Hybrid Opt-In Election** - VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

4. **Retirement Contributions** - Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Note 9 - Pension Plan: (Continued)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

5. **Creditable Service** - Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
6. **Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

7. **Calculating the Benefit** - The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

8. **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.
10. **Normal Retirement Age** - Age 65.
11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Pension Plan: (Continued)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.
13. **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.
14. **Eligibility** - For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

15. **Exceptions to COLA Effective Dates** - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
 - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
 - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
 - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Pension Plan: (Continued)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

- 16. Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

- 17. Purchase of Prior Service** - Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS – PLAN 2

- 1. Plan Overview** - VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
- 2. Eligible Members** - Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
- 3. Hybrid Opt-In Election** - VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Pension Plan: (Continued)

A. Plan Description (Continued)

VRS – PLAN 2 (CONTINUED)

4. **Retirement Contributions** - Same as VRS Plan 1–Refer to Section 4.
5. **Creditable Service** - Same as VRS Plan 1– Refer to Section 5.
6. **Vesting** - Same as VRS Plan 1–Refer to Section 6.
7. **Calculating the Benefit** - Same as VRS Plan 1–Refer to Section 7.
8. **Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.
10. **Normal Retirement Age** - Normal Social Security retirement age.
11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.
12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.
13. **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.
14. **Eligibility** - Same as VRS Plan 1–Refer to Section 14.
15. **Exceptions to COLA Effective Dates** - Same as VRS Plan 1–Refer to Section 15.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Pension Plan: (Continued)

A. Plan Description (Continued)

VRS - PLAN 2 (CONTINUED)

- 16. Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

- 17. Purchase of Prior Service** - Same as VRS Plan 1—Refer to Section 17.

HYBRID RETIREMENT PLAN

- 1. Plan Overview** - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)
- The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.
 - The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
 - In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Pension Plan: (Continued)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

2. **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees*
- School division employees
- Political subdivision employees*
- Judges appointed or elected to an original term on or after January 1, 2014
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

3. ***Non-Eligible Members** - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS)
- Members of the Virginia Law Officers' Retirement System (VaLORS)
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

4. **Retirement Contributions** - A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Pension Plan: (Continued)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

5. **Creditable Service**

Defined Benefit Component - Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component - Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

6. **Vesting**

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component - Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

Note 9 - Pension Plan: (Continued)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

7. Calculating the Benefit

Defined Benefit Component - Same as VRS Plan 1—Refer to Section 7.

Defined Contribution Component - The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

8. Average Final Compensation - Same as VRS Plan 2—Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.

9. Service Retirement Multiplier - The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

10. Normal Retirement Age

Defined Benefit Component - Same as VRS Plan 2—Refer to Section 10.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

11. Earliest Unreduced Retirement Eligibility

Defined Benefit Component - Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

12. Earliest Reduced Retirement Eligibility

Defined Benefit Component - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Pension Plan: (Continued)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

13. Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component - Same as VRS Plan 2–Refer to Section 13.

Defined Contribution Component - Not Applicable.

14. Eligibility - Same as VRS Plan 1 and VRS Plan 2–Refer to Section 14.

15. Exceptions to COLA Effective Dates - Same as VRS Plan 1 and VRS Plan 2–Refer to Section 15.

16. Disability Coverage - Eligible political subdivision and school division members (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. Purchase of Prior Service

Defined Benefit Component - Same as VRS Plan 1 and VRS Plan 2–Refer to Section 17.

Defined Contribution Component - Not Applicable.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Pension Plan: (Continued)**B. Funding Policy**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City and School Board's contribution rates for the fiscal year ended 2014 were 15.83% and 15.70% (not including the 5% member contribution) of annual covered payroll, respectively.

The School Board's contributions for professional employees were \$597,619, \$598,100, and \$339,388, to the teacher cost-sharing pool for the fiscal years ended June 30, 2014, 2013, and 2012, respectively and these contributions represented 11.66%, 11.66%, and 6.33% for 2014, 2013, and 2012, respectively, of current covered payroll.

C. Annual Pension Cost

For fiscal year 2014, City's annual pension cost of \$548,343 was equal to the City's required and actual contributions. For fiscal year 2014, School Board's annual pension cost of \$80,357 was equal to the School Board's required and actual contributions.

Three-Year Trend Information

	Fiscal Year Ended	Annual Pension Cost (APC) ¹	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2012	\$ 612,967	100.00%	\$ -
	6/30/2013	561,286	100.00%	-
	6/30/2014	548,343	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2012	\$ 83,959	100.00%	\$ -
	6/30/2013	76,359	100.00%	-
	6/30/2014	80,357	100.00%	-

¹ Employer portion only

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 9 - Pension Plan: (Continued)

C. Annual Pension Cost (Continued)

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's and School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's and School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funding Status and Progress

As of June 30, 2013, the most recent actuarial valuation date, the City's plan was 68.24% funded. The actuarial accrued liability for benefits was \$22,897,094, and the actuarial value of assets was \$15,624,619, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,272,475. The covered payroll (annual payroll of active employees covered by the plan) was \$3,418,637 and ratio of the UAAL to the covered payroll was 212.73%.

As of June 30, 2013, the most recent actuarial valuation date, the School Board's plan was 67.74% funded. The actuarial accrued liability for benefits was \$2,828,969, and the actuarial value of assets was \$1,916,322, resulting in an unfunded actuarial accrued liability (UAAL) of \$912,647. The covered payroll (annual payroll of active employees covered by the plan) was \$497,082 and ratio of the UAAL to the covered payroll was 183.60%.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 10 - Other Postemployment Benefits (OPEB) - Health Insurance:

A. Plan Description

The Covington Postemployment Healthcare Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the City. The Plan provides health insurance benefits to eligible retirees and their spouses. To be eligible, employees must meet the age and service criteria for immediate retirement benefits under VRS, which requires that the employee be age 55 with 5 years of service or permanently, totally disabled and injured in the line of duty. Additionally, the employee must be of full-time status in VRS and must be covered by the active plan at the time of retirement or disability. The benefit provisions, including employer and employee contributions, are governed by City Council and can be amended through City Council action. The Plan does not issue a publicly available financial report.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 10 - Other Postemployment Benefits (OPEB) - Health Insurance: (Continued)

B. Funding Policy

The Covington City Government establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will be partially funded or fully funded in the upcoming fiscal year. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City. For fiscal year 2014, the City and School Board contributed \$31,500 and \$58,100, respectively, for current premiums and prefunding amounts.

For retirees of the City and School Board, 100 percent of premiums for both the employee and spouse are the responsibility of the retiree. Coverage under the plan ceases when the employee reaches age 65.

C. Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty nine years. The following table shows the components of the City and City School Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City and City School Board's net OPEB obligation:

	Primary Government				Component Unit
	General	Water	Sewer	Total	School Board
Annual required contribution	\$ 52,323	\$ 5,862	\$ 4,915	\$ 63,100	\$ 68,500
Interest on net OPEB obligation	12,189	1,366	1,145	14,700	8,000
Adjustment to annual required contribution	(12,687)	(1,421)	(1,192)	(15,300)	(8,300)
Annual OPEB cost (expense)	51,825	5,807	4,868	62,500	68,200
Contributions made	(26,120)	(2,926)	(2,454)	(31,500)	(58,100)
Increase in net OPEB obligation	25,705	2,881	2,414	31,000	10,100
Net OPEB obligation - beginning of year	302,088	36,401	29,511	368,000	200,000
Net OPEB obligation - end of year	\$ 327,793	\$ 39,282	\$ 31,925	\$ 399,000	\$ 210,100

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 10 - Other Postemployment Benefits (OPEB) - Health Insurance: (Continued)**C. Annual OPEB Cost and Net OPEB Obligation**

The City and City School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and two preceding years were as follows:

Entity	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
City	6/30/2014	62,500	50.40%	399,000
City	6/30/2013	60,500	40.31%	368,000
City	6/30/2012	58,300	32.25%	334,900
School Board	6/30/2014	68,200	85.19%	210,100
School Board	6/30/2013	66,900	84.93%	200,000
School Board	6/30/2012	75,000	63.07%	188,700

D. Funded Status and Funding Progress**City:**

As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$701,300, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$3,443,700, and ratio of the UAAL to the covered payroll was 20.36%.

School Board:

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$869,200, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,575,000 and ratio of the UAAL to the covered payroll was 15.59%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 10 - Other Postemployment Benefits (OPEB) - Health Insurance: (Continued)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011, City actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return per annum. An annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements of 0.5 percent until an ultimate rate of 5 percent is reached. The UAAL is being amortized as a level percentage over the remaining amortization period, which at June 30, 2011, was 30 years.

In the July 1, 2012, School Board actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return per annum. An annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements of 0.5 percent until an ultimate rate of 5 percent is reached. The UAAL is being amortized as a level percentage over the remaining amortization period, which at June 30, 2012, was 30 years.

Note 11 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit:

A. Plan Description

The City and School Board participate in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

An employee of the City or School Board, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of \$45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 9.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 11 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)

B. Funding Policy

Primary Government:

As a participating local political subdivision, the City is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2014 was 0.54% of annual covered payroll.

Discretely Presented Component Unit - School Board (Non-Professional Employees):

As a participating local political subdivision, the Covington School Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2014 was 0.82% of annual covered payroll.

C. Annual OPEB Cost and Net OPEB Obligation

Primary Government:

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, is based on the annual required contribution (ARC). The City is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Primary Government: (Continued)

For 2014, the City's contribution of \$16,044 was equal to the ARC and OPEB cost. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years are as follows:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Primary Government:				
City	6/30/2012	\$ 17,335	100.00%	\$ -
	6/30/2013	16,794	100.00%	-
	6/30/2014	16,044	100.00%	-

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 11 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

Discretely Presented Component Unit - School Board (Non-Professional Employees):

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, is based on the annual required contribution (ARC). The School Board is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For 2014, the School Board's contribution of \$4,147 was equal to the ARC and OPEB cost. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years are as follows:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Discretely Presented Component Unit				
School Board	6/30/2012	\$ 4,098	100.00%	\$ -
	6/30/2013	4,005	100.00%	-
	6/30/2014	4,147	100.00%	-

D. Funded Status and Funding Progress

Primary Government:

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 312,192
Actuarial value of plan assets	\$ 92,288
Unfunded actuarial accrued liability (UAAL)	\$ 219,904
Funded ratio (actuarial value of plan assets/AAL)	29.56%
Covered payroll (active plan members)	\$ 3,169,540
UAAL as a percentage of covered payroll	6.94%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 11 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)

D. Funded Status and Funding Progress (Continued)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Discretely Presented Component Unit - School Board (Non-Professional Employees):

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	63,421
Actuarial value of plan assets	\$	13,656
Unfunded actuarial accrued liability (UAAL)	\$	49,765
Funded ratio (actuarial value of plan assets/AAL)		21.53%
Covered payroll (active plan members)	\$	497,082
UAAL as a percentage of covered payroll		10.01%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Actuarial Methods and Assumptions

Primary Government:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 11 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)

E. Actuarial Methods and Assumptions (Continued)

Primary Government: (Continued)

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2013 was 30 years.

Discretely Presented Component Unit - School Board (Non-Professional Employees):

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2013 was 30 years.

The Retiree Health Insurance Credit benefit is based on a member's employer eligibility and his or her years of service. The monthly maximum credit amount cannot exceed the member's actual health insurance premium costs. The actuarial valuation for this plan assumes the maximum credit is payable for each eligible member. Since this benefit is a flat dollar amount multiplied by years of service and the maximum benefit is assumed, no assumption relating to healthcare cost trend rates is needed or applied.

Professional Employees - Discretely Presented Component Unit School Board

A. Plan Description

The School Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is a cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service.

A teacher, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$4 per year of creditable service. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive a monthly health insurance credit of \$4 multiplied by the smaller of (i) twice the amount of their creditable service or (ii) the amount of creditable service they would have completed at age 60 if they had remained in service to that age.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**Note 11 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)**Professional Employees - Discretely Presented Component Unit School Board (Continued)**B. Funding Policy**

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.11% of annual covered payroll. The School Board's contributions to VRS for the year ended June 30, 2014 was \$56,438 and equaled the required contributions.

Note 12 - Capital Assets:

Capital asset activity for the year ended June 30, 2014 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,955,871	\$ -	\$ -	\$ 1,955,871
Construction in progress	41,978	7,675	-	49,653
Total capital assets not being depreciated	\$ 1,997,849	\$ 7,675	\$ -	\$ 2,005,524
Capital assets, being depreciated:				
Buildings and improvements	\$ 30,159,473	\$ 171,217	\$ -	\$ 30,330,690
Infrastructure	1,029,812	-	-	1,029,812
Machinery and equipment	7,273,958	125,006	(18,995)	7,379,969
Total capital assets being depreciated	\$ 38,463,243	\$ 296,223	\$ (18,995)	\$ 38,740,471
Accumulated depreciation:				
Buildings and improvements	\$ (6,672,720)	\$ (764,524)	\$ -	\$ (7,437,244)
Infrastructure	(340,017)	(44,982)	-	(384,999)
Machinery and equipment	(4,899,941)	(363,434)	8,455	(5,254,920)
Total accumulated depreciation	\$ (11,912,678)	\$ (1,172,940)	\$ 8,455	\$ (13,077,163)
Total capital assets being depreciated, net	\$ 26,550,565	\$ (876,717)	\$ (10,540)	\$ 25,663,308
Governmental activities capital assets, net	\$ 28,548,414	\$ (869,042)	\$ (10,540)	\$ 27,668,832

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014Note 12 - Capital Assets: (Continued)

Primary Government: (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ <u>4,077,320</u>	\$ <u>3,585,408</u>	\$ <u>-</u>	\$ <u>7,662,728</u>
Capital assets, being depreciated:				
Infrastructure	\$ <u>22,131,367</u>	\$ <u>483,312</u>	\$ <u>-</u>	\$ <u>22,614,679</u>
Accumulated depreciation:				
Infrastructure	\$ <u>(9,662,816)</u>	\$ <u>(529,874)</u>	\$ <u>-</u>	\$ <u>(10,192,690)</u>
Total capital assets being depreciated, net	\$ <u>12,468,551</u>	\$ <u>(46,562)</u>	\$ <u>-</u>	\$ <u>12,421,989</u>
Business-type activities capital assets, net	\$ <u>16,545,871</u>	\$ <u>3,538,846</u>	\$ <u>-</u>	\$ <u>20,084,717</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government administration	\$ 3,098
Public safety	264,173
Public works	191,965
Education	585,102
Parks, recreation, and cultural	<u>128,602</u>

Total depreciation expense-governmental activities \$ 1,172,940

Business-type activities:

Water and sewer funds	\$ <u>529,874</u>
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Total depreciation expense-Primary Government \$ 1,702,814

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**Note 12 - Capital Assets: (Continued)**Discretely Presented Component Unit

Capital asset activity for the School Board for the year ended June 30, 2014 was as follows:

	Beginning Balance, as Restated	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 89,663	\$ -	\$ -	\$ 89,663
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,188,460	\$ -	\$ -	\$ 3,188,460
Machinery and equipment	968,924	84,994	-	1,053,918
Total capital assets being depreciated	\$ 4,157,384	\$ 84,994	\$ -	\$ 4,242,378
Accumulated depreciation:				
Buildings and improvements	\$ (1,609,759)	\$ (72,700)	\$ -	\$ (1,682,459)
Machinery and equipment	(728,182)	(54,086)	-	(782,268)
Total accumulated depreciation	\$ (2,337,941)	\$ (126,786)	\$ -	\$ (2,464,727)
Total capital assets being depreciated, net	\$ 1,819,443	\$ (41,792)	\$ -	\$ 1,777,651
Governmental activities capital assets, net	\$ 1,909,106	\$ (41,792)	\$ -	\$ 1,867,314

Note 13 - Risk Management:

The City and its component unit - School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City and its component unit - School Board participate with other localities in a public entity risk pool for their coverage of general liability and auto insurance with the Virginia Municipal Liability Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The City and its component unit - School Board pay the Virginia Municipal Group contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The City and its component unit - School Board continue to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 14 - Contingent Liabilities:

Federal programs in which the City and its component unit participate were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Note 15 - Surety Bonds:

<u>Fidelity & Deposit Company of Maryland-Surety:</u>	
J.B. Broughman, City Manager	\$ 100,000
Eunice Dressler Clark, City Treasurer	200,000
Cathy M. Kimberlin, Commissioner of the Revenue	3,000
All City Employees: blanket bond	100,000
All School Board Employees: blanket bond	100,000

Note 16 - Landfill Closure and Post-Closure Care Cost:

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. \$5,190,654 is the total estimated closure and post-closure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2014. This represents the cumulative amount based on the use of 100% of the estimated capacity of the landfill and is based on what it would cost to perform all remaining closure and post-closure care in 2013. In fiscal year 2002, the Department of Environmental Quality closed permit #178. The City's open landfill, permit #594, is comprised of a working cell that is approximately 66.5% full, including cells A and B. The life expectancy for cells A and B is 6.5 years based on an average annual disposal rate. The current year liability is based on a study performed as of that date and adjusted for inflation. Actual costs for closure and post-closure monitoring may change due to inflation, deflation, changes in technology, or changes in regulations. The City uses the Financial Assurance Mechanism to meet the Department of Environmental Quality's assurance requirements for landfill closure and post-closure costs.

The City demonstrated financial assurance requirements for closure, post-closure care, and corrective action costs through the submission of a Local Governmental Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VA C20-70 of the Virginia Administrative Code.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 17 - Deferred/Unavailable Revenue:

Deferred/unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Unavailable revenue is comprised of the following:

	<u>Unavailable</u>
Property taxes receivable-2nd half 2014	\$ 1,973,130
Personal property taxes relief	11,639
Prepaid taxes	<u>23,725</u>
Total deferred revenue for governmental activities	\$ 2,008,494
Taxes receivable due prior to June 30, 2014, not collected within 60 days	\$ 434,646
Total unavailable revenue for governmental funds	<u>2,443,140</u>

Note 18 - Construction Commitments:

	Original Contract	Amount Paid As of 6/30/2014	Remaining Contract Amount	Accounts Payable	Retainage Payable
Water System Line Imp.	\$ 469,500	\$ 398,565	\$ 70,935	\$ 20,305	\$ -
Sewer Separation Project	6,579,105	4,650,772	1,928,333	748,642	25,566
Total Contracts	<u>\$ 7,048,605</u>	<u>\$ 5,049,337</u>	<u>\$ 1,999,268</u>	<u>\$ 768,947</u>	<u>\$ 25,566</u>

Note 19 - Concentrations:

The City of Covington, Virginia relies heavily on the MeadWestvaco plant for tax revenue and employment of citizens. MeadWestvaco directly comprises 14.00% of the real estate tax levy and 65.63% of the personal property taxes for a combined 50.47% of the total City's 2014 tax levy.

Note 20 - Litigation:

Mead Westvaco appealed an assessment of machinery and tools tax for the tax years 2011, 2012, and 2013. Following a review by the Commissioner of Revenue and City Council, the City agreed to refund the following amounts including interest for the following years: 2011 - \$538,233, 2012 - \$437,478, and 2013 - \$372,352. During fiscal year 2014, Mead Westvaco requested additional refunds and the City agreed to an additional amount of \$336,502. The City paid its first installment related to the refunds during fiscal year 2014 in the amount of \$613,024. As of June 30, 2014, Mead Westvaco was due \$1,071,541 with \$735,038 to be paid in fiscal year 2015. Payment of the remaining amount \$336,503 has not been determined. Additional amounts have been sought by the Company however, the City plans to fight these additional requests for refunds.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 20 - Litigation: (Continued)

As of June 30, 2014, there were no other matters of litigation involving the City which would materially affect the City's financial position should an court decisions on pending matters not be favorable.

Note 21 - Restatement of Net Position:

The City has restated the net position as demonstrated below.

	Net Position		Fund Balance
	Primary	Component Unit-	General
	Government	School Board	Fund
As previously reported, June 30, 2013	\$ 113,646	\$ 934,970	\$ 2,296,405
Mead Westvaco Refund	(271,022)	-	(271,022)
Amount Due School Board	(72,824)	-	(72,824)
Accumulated Depreciation	-	585,103	-
Restated, June 30, 2013	\$ <u>(230,200)</u>	\$ <u>1,520,073</u>	\$ <u>1,952,559</u>

Note 22 - Upcoming Pronouncements:

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The City has not determined the impact of this pronouncement on its financial statements.

Required Supplementary Information

City of Covington, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
General property taxes	\$ 7,281,025	\$ 7,281,025	\$ 6,883,416	\$ (397,609)
Other local taxes	3,707,000	3,707,000	3,660,422	(46,578)
Permits, privilege fees, and regulatory licenses	27,877	27,877	11,102	(16,775)
Fines and forfeitures	15,000	15,000	7,488	(7,512)
Revenue from the use of money and property	36,300	36,300	58,339	22,039
Charges for services	1,265,981	1,265,981	1,088,303	(177,678)
Miscellaneous	3,025	232,925	227,768	(5,157)
Recovered costs	25,000	25,000	18,724	(6,276)
Intergovernmental:				
Commonwealth	3,425,957	3,447,111	3,188,532	(258,579)
Federal	237,223	733,743	180,680	(553,063)
Total Revenues	\$ 16,024,388	\$ 16,771,962	\$ 15,324,774	\$ (1,447,188)
EXPENDITURES				
Current:				
General government administration	\$ 1,402,165	\$ 1,476,044	\$ 1,442,101	\$ 33,943
Judicial administration	171,000	171,000	164,988	6,012
Public safety	3,194,835	3,307,922	3,000,898	307,024
Public works	2,447,097	2,594,006	2,470,238	123,768
Health and welfare	1,712,290	1,712,540	1,455,490	257,050
Education	4,066,965	4,066,965	3,779,521	287,444
Parks, recreation, and cultural	1,368,090	2,197,887	1,544,455	653,432
Community development	97,382	102,382	85,394	16,988
Nondepartmental	113,691	663,980	135,264	528,716
Debt service:				
Principal retirement	314,437	314,437	314,436	1
Interest and other fiscal charges	958,815	958,815	791,770	167,045
Total Expenditures	\$ 15,846,767	\$ 17,565,978	\$ 15,184,555	\$ 2,381,423
Excess (deficiency) of revenues over (under) expenditures	\$ 177,621	\$ (794,016)	\$ 140,219	\$ 934,235
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 382,398	\$ 963,361	\$ 968,236	\$ 4,875
Transfers out	(560,019)	(560,019)	(582,580)	(22,561)
Payment to refunding bond escrow agent	-	-	(172,035)	(172,035)
Total other financing sources (uses)	\$ (177,621)	\$ 403,342	\$ 213,621	\$ (189,721)
Net change in fund balances	\$ -	\$ (390,674)	\$ 353,840	\$ 744,514
Fund balances - beginning, as restated	-	390,674	1,952,559	1,561,885
Fund balances - ending	\$ -	\$ -	\$ 2,306,399	\$ 2,306,399

City of Covington, Virginia

Schedule of Pension and OPEB Funding Progress
For the Year Ended June 30, 2014

Primary Government: City Retirement Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2013	\$ 15,624,619	\$ 22,897,094	\$ 7,272,475	68.24%	\$ 3,418,637	212.73%
June 30, 2012	15,111,912	22,801,991	7,690,079	66.27%	3,435,559	223.84%
June 30, 2011	15,298,840	22,401,743	7,102,903	68.29%	3,443,668	206.26%

City Postemployment Healthcare Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2011*	\$ -	\$ 701,300	\$ 701,300	0.00%	\$ 3,443,700	20.36%
July 1, 2008	-	1,440,800	1,440,800	0.00%	3,519,100	40.94%

City Postemployment VRS Health Insurance Credit

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2013	\$ 92,288	\$ 312,192	\$ 219,904	29.56%	\$ 3,169,540	6.94%
June 30, 2012	84,631	305,720	221,089	27.68%	3,169,682	6.98%
June 30, 2011	85,454	305,680	220,226	27.96%	3,181,232	6.92%

School Board Non-Professional Retirement Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2013	\$ 1,916,322	\$ 2,828,969	\$ 912,647	67.74%	\$ 497,082	183.60%
June 30, 2012	1,907,499	2,893,732	986,233	65.92%	517,551	190.56%
June 30, 2011	1,975,309	2,772,449	797,140	71.25%	496,779	160.46%

School Board Postemployment Healthcare Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2012	\$ -	\$ 869,200	\$ 869,200	0.00%	\$ 5,575,000	15.59%
July 1, 2010	-	829,000	829,000	0.00%	5,506,000	15.06%
July 1, 2008	-	1,723,300	1,723,300	0.00%	5,481,000	31.44%

School Board Postemployment VRS Health Insurance Credit

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2013	\$ 13,656	\$ 63,421	\$ 49,765	21.53%	\$ 497,082	10.01%
June 30, 2012	12,615	63,680	51,065	19.81%	517,551	9.87%
June 30, 2011	13,519	64,353	50,834	21.01%	496,779	10.23%

*Only two years of data available

Other Supplementary Information

City of Covington, Virginia
School Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 25,000	\$ 25,007	\$ 11,278	\$ (13,729)
Intergovernmental revenues:				
Covington City Schools	300,000	300,000	300,000	-
Total revenues	<u>\$ 325,000</u>	<u>\$ 325,007</u>	<u>\$ 311,278</u>	<u>\$ (13,729)</u>
EXPENDITURES				
Debt service:				
Principal retirement	\$ -	\$ 15,985,524	\$ 15,279,100	\$ 706,424
Interest and other fiscal charges	-	98,343	98,343	-
Bond issuance costs	-	71,526	71,526	-
Total expenditures	<u>\$ -</u>	<u>\$ 16,155,393</u>	<u>\$ 15,448,969</u>	<u>\$ 706,424</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 325,000</u>	<u>\$ (15,830,386)</u>	<u>\$ (15,137,691)</u>	<u>\$ 692,695</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 560,019	\$ 560,719	\$ 560,719	\$ -
Transfers out	-	-	(580,963)	(580,963)
Issuance of refunding bond	-	11,630,000	11,630,000	-
Premium on issuance	-	496,278	496,278	-
Payment to refunding bond escrow agent	-	-	(111,146)	(111,146)
Total other financing sources (uses)	<u>560,019</u>	<u>12,686,997</u>	<u>11,994,888</u>	<u>(692,109)</u>
Net change in fund balances	\$ 885,019	\$ (3,143,389)	\$ (3,142,803)	\$ 586
Fund balances - beginning	3,139,875	3,143,389	3,143,389	-
Fund balances - ending	<u>\$ 4,024,894</u>	<u>\$ -</u>	<u>\$ 586</u>	<u>\$ 586</u>

City of Covington, Virginia
School Construction Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Revenue from the use of money and property	\$ -	\$ 170	\$ 78	\$ (92)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ 170	\$ 78	\$ (92)
Net change in fund balances	\$ -	\$ 170	\$ 78	\$ (92)
Fund balances - beginning	-	1,012,606	1,012,605	(1)
Fund balances - ending	\$ -	\$ 1,012,776	\$ 1,012,683	\$ (93)

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD**

MAJOR GOVERNMENTAL FUNDS

School Operating Fund - The School Operating Fund accounts for the operations of the City's school system. Financing is provided by the State and Federal governments as well as contributions from the General Fund.

City of Covington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2014

	School Operating Fund
ASSETS	
Cash and cash equivalents	\$ 704,007
Cash in custody of others	89,112
Receivables (net of allowance for uncollectibles):	
Accounts receivable	6,385
Due from other governmental units	224,170
Inventories	8,077
Prepaid items	67,928
Total assets	<u>\$ 1,099,679</u>
LIABILITIES	
Accrued liabilities	792,144
Due to primary government	160,570
Total liabilities	<u>\$ 952,714</u>
FUND BALANCES	
Nonspendable:	
Prepaid items	\$ 67,928
Inventory	8,077
Restricted:	
Cafeteria	55,342
Assigned:	
Textbook Funds	83,546
Unassigned	(67,928)
Total fund balances	<u>\$ 146,965</u>
Total liabilities and fund balances	<u>\$ 1,099,679</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total fund balances per above	\$ 146,965
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Land	\$ 89,663
Buildings and improvements	1,506,001
Machinery, equipment, and vehicles	<u>271,650</u>
	1,867,314
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	\$ (374,890)
Net OPEB obligation	<u>(210,100)</u>
	(584,990)
Net position of governmental activities	<u>\$ 1,429,289</u>

City of Covington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2014

	School Operating Fund
REVENUES	
Revenue from the use of money and property	\$ 1,486
Charges for services	96,701
Miscellaneous	88,359
Recovered costs	90,872
Intergovernmental:	
Local government	3,478,021
Commonwealth	5,907,841
Federal	723,084
Total revenues	<u>\$ 10,386,364</u>
EXPENDITURES	
Current:	
Education	\$ 10,102,030
Capital projects	333,530
Total expenditures	<u>\$ 10,435,560</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (49,196)</u>
Net change in fund balances	\$ (49,196)
Fund balances - beginning	<u>196,161</u>
Fund balances - ending	<u><u>\$ 146,965</u></u>
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
Net change in fund balances - total governmental funds - per above	\$ (49,196)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded the capital outlays in the current period.	
Capital asset additions	\$ 84,994
Depreciation expense	<u>(126,786)</u>
	(41,792)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	
(Increase) decrease in compensated absences	\$ 10,304
(Increase) decrease in net OPEB obligation	<u>(10,100)</u>
	204
Change in net position of governmental activities	<u><u>\$ (90,784)</u></u>

City of Covington, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2014

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 500	\$ 500	\$ 1,486	\$ 986
Charges for services	505,250	505,250	96,701	(408,549)
Miscellaneous	45,352	45,352	88,359	43,007
Recovered costs	55,000	55,000	90,872	35,872
Intergovernmental:				
Local government	4,065,465	4,065,465	3,478,021	(587,444)
Commonwealth	5,514,366	5,553,446	5,907,841	354,395
Federal	858,463	881,636	723,084	(158,552)
Total revenues	\$ 11,044,396	\$ 11,106,649	\$ 10,386,364	\$ (720,285)
EXPENDITURES				
Current:				
Education	\$ 10,459,896	\$ 10,473,116	\$ 10,102,030	\$ 371,086
Capital projects	584,500	633,533	333,530	300,003
Total expenditures	\$ 11,044,396	\$ 11,106,649	\$ 10,435,560	\$ 671,089
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (49,196)	\$ (49,196)
Net change in fund balances	\$ -	\$ -	\$ (49,196)	\$ (49,196)
Fund balances - beginning	-	-	196,161	196,161
Fund balances - ending	\$ -	\$ -	\$ 146,965	\$ 146,965

Supporting Schedules

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2014

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,939,111	\$ 1,939,111	\$ 1,883,203	\$ (55,908)
Real and personal public service corporation taxes	176,000	176,000	690,299	514,299
Personal property taxes	943,104	943,104	905,978	(37,126)
Mobile home taxes	8,035	8,035	7,222	(813)
Machinery and tools taxes	4,144,775	4,144,775	3,328,270	(816,505)
Penalties	40,000	40,000	42,475	2,475
Interest	30,000	30,000	25,969	(4,031)
Total general property taxes	<u>\$ 7,281,025</u>	<u>\$ 7,281,025</u>	<u>\$ 6,883,416</u>	<u>\$ (397,609)</u>
Other local taxes:				
Local sales and use taxes	\$ 1,310,000	\$ 1,310,000	\$ 1,262,115	\$ (47,885)
Consumers' utility taxes	410,000	410,000	433,112	23,112
Consumption taxes	24,000	24,000	26,111	2,111
Business license taxes	600,000	600,000	562,959	(37,041)
Motor vehicle licenses	140,000	140,000	137,197	(2,803)
Bank stock taxes	136,000	136,000	158,923	22,923
Recordation tax	27,000	27,000	26,070	(930)
Hotel and motel room taxes	15,000	15,000	9,391	(5,609)
Restaurant food taxes	930,000	930,000	940,895	10,895
Tobacco taxes	115,000	115,000	103,649	(11,351)
Total other local taxes	<u>\$ 3,707,000</u>	<u>\$ 3,707,000</u>	<u>\$ 3,660,422</u>	<u>\$ (46,578)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 750	\$ 750	\$ 700	\$ (50)
Dog pound fees	50	50	2	(48)
Special use permits	50	50	30	(20)
Zoning and subdivision permits	800	800	-	(800)
Building permits	26,000	26,000	10,225	(15,775)
Sign permits	100	100	120	20
Other permits and licenses	127	127	25	(102)
Total permits, privilege fees, and regulatory licenses	<u>\$ 27,877</u>	<u>\$ 27,877</u>	<u>\$ 11,102</u>	<u>\$ (16,775)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 15,000	\$ 15,000	\$ 7,488	\$ (7,512)
Revenue from use of money and property:				
Revenue from use of money	\$ 24,200	\$ 24,200	\$ 44,739	\$ 20,539
Revenue from use of property	12,100	12,100	13,600	1,500
Total revenue from use of money and property	<u>\$ 36,300</u>	<u>\$ 36,300</u>	<u>\$ 58,339</u>	<u>\$ 22,039</u>
Charges for services:				
Charges for fire and rescue services	\$ 400,000	\$ 400,000	\$ 330,402	\$ (69,598)
Charges for sanitation and waste removal	731,371	731,371	612,698	(118,673)
Charges for parks and recreation	41,500	41,500	44,716	3,216
Charges for landfill closure	52,300	52,300	66,100	13,800
Charges for cemetery	33,000	33,000	33,418	418

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2014

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (continued)				
Charges for services: (continued)				
Charges for other services	\$ 7,810	\$ 7,810	\$ 969	\$ (6,841)
Total charges for services	\$ 1,265,981	\$ 1,265,981	\$ 1,088,303	\$ (177,678)
Miscellaneous revenue:				
Miscellaneous	\$ 3,025	\$ 232,925	\$ 227,768	\$ (5,157)
Recovered costs:				
CSA recoveries	\$ -	\$ -	\$ 7,072	\$ 7,072
Other recovered costs	25,000	25,000	11,652	(13,348)
Total recovered costs	\$ 25,000	\$ 25,000	\$ 18,724	\$ (6,276)
Total revenue from local sources	\$ 12,361,208	\$ 12,591,108	\$ 11,955,562	\$ (635,546)
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 34,000	\$ 34,000	\$ 17,043	\$ (16,957)
Mobile home titling tax	2,000	2,000	975	(1,025)
Motor vehicle rental tax	-	-	24,193	24,193
State recordation tax	-	-	6,878	6,878
Telecommunications taxes	320,000	320,000	312,357	(7,643)
Personal property tax relief funds	537,826	537,826	537,826	-
Total noncategorical aid	\$ 893,826	\$ 893,826	\$ 899,272	\$ 5,446
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 69,000	\$ 69,000	\$ 72,799	\$ 3,799
Treasurer	66,000	66,000	68,093	2,093
Registrar/electoral board	34,000	34,000	27,422	(6,578)
Total shared expenses	\$ 169,000	\$ 169,000	\$ 168,314	\$ (686)
Other categorical aid:				
Welfare payments	\$ 191,992	\$ 191,992	\$ 118,465	\$ (73,527)
CSA payments	770,000	770,000	627,382	(142,618)
Criminal justice grant	257,130	257,130	257,128	(2)
Litter control grant	7,000	7,000	6,128	(872)
Technology E-911 grants	41,000	41,000	43,533	2,533
Fire program	20,000	20,000	20,000	-
Asset forfeiture	33,000	33,000	4,206	(28,794)
Local government challenge grant	5,000	5,000	5,000	-
Emergency four for life	5,200	5,200	5,359	159
Law enforcement block grant	3,500	3,500	4,363	863
State highway payments	934,839	934,839	962,368	27,529
Victim-witness grant	14,438	14,438	23,869	9,431
E-911 grant program - wireless trunking	-	11,154	11,154	-

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
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For the Year Ended June 30, 2014

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental: (continued)				
Revenue from the Commonwealth: (continued)				
Categorical aid: (continued)				
Other categorical aid: (continued)				
Disaster recovery	\$ -	\$ -	\$ 21,890	\$ 21,890
VDGIF grant - boat access	-	10,000	10,000	-
Other State funds	80,032	80,032	101	(79,931)
Total other categorical aid	\$ 2,363,131	\$ 2,384,285	\$ 2,120,946	\$ (263,339)
Total categorical aid	\$ 2,532,131	\$ 2,553,285	\$ 2,289,260	\$ (264,025)
Total revenue from the Commonwealth	\$ 3,425,957	\$ 3,447,111	\$ 3,188,532	\$ (258,579)
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ 43,315	\$ 43,315	\$ 30,969	\$ (12,346)
FEMA emergency management	-	-	32,835	32,835
DMV grant	26,200	29,200	4,581	(24,619)
Bureau of justice	3,500	3,500	974	(2,526)
Vol fire assistance program grant	-	1,476	1,352	(124)
TEA-21 grant	-	492,044	6,076	(485,968)
Public assistance and welfare administration	164,208	164,208	103,893	(60,315)
Total categorical aid	\$ 237,223	\$ 733,743	\$ 180,680	\$ (553,063)
Total revenue from the federal government	\$ 237,223	\$ 733,743	\$ 180,680	\$ (553,063)
Total General Fund	\$ 16,024,388	\$ 16,771,962	\$ 15,324,774	\$ (1,447,188)
Debt Service Fund:				
School Debt Service Reserve Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ 25,000	\$ 25,007	\$ 11,278	\$ (13,729)
Intergovernmental:				
Revenues from local governments:				
Contribution from Covington City Schools	\$ 300,000	\$ 300,000	\$ 300,000	\$ -
Total School Debt Service Fund	\$ 325,000	\$ 325,007	\$ 311,278	\$ (13,729)
Capital Projects Fund:				
School Construction Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ 170	\$ 78	\$ (92)
Total School Construction Fund	\$ -	\$ 170	\$ 78	\$ (92)
Total Primary Government	\$ 16,349,388	\$ 17,097,139	\$ 15,636,130	\$ (1,461,009)

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
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For the Year Ended June 30, 2014

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 98	\$ 98
Revenue from the use of property	500	500	1,388	888
Total revenue from use of money and property	\$ 500	\$ 500	\$ 1,486	\$ 986
Charges for services:				
Cafeteria sales	\$ 505,250	\$ 505,250	\$ 96,366	\$ (408,884)
Textbook fees	-	-	335	335
Total charges for services	\$ 505,250	\$ 505,250	\$ 96,701	\$ (408,549)
Miscellaneous revenue:				
Miscellaneous	\$ 45,352	\$ 45,352	\$ 88,359	\$ 43,007
Recovered costs:				
Payments from other localities	\$ -	\$ -	\$ 39,470	\$ 39,470
Other recovered costs	55,000	55,000	51,402	(3,598)
Total recovered costs	\$ 55,000	\$ 55,000	\$ 90,872	\$ 35,872
Total revenue from local sources	\$ 606,102	\$ 606,102	\$ 277,418	\$ (328,684)
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Covington, Virginia	\$ 4,065,465	\$ 4,065,465	\$ 3,478,021	\$ (587,444)
Revenue from the Commonwealth:				
Categorical aid:				
Algebra readiness	\$ 13,856	\$ 13,856	\$ 16,112	\$ 2,256
At risk four year olds	91,035	91,035	91,035	-
At risk payments	118,421	118,421	125,916	7,495
Basic school aid	2,576,348	2,576,348	2,802,521	226,173
Early reading intervention	22,557	22,557	33,836	11,279
Education technology payment	180,000	180,000	209,223	29,223
English as a second language	862	862	3,016	2,154
Fringe benefits	607,280	607,280	643,328	36,048
Gifted and talented	28,250	28,250	30,057	1,807
ISAEF program	7,859	7,859	7,859	-
School security grant	-	33,600	33,600	-
National board certification	-	-	5,000	5,000
Primary class size	178,145	178,145	199,141	20,996
Remedial education	120,983	120,983	128,723	7,740
School food	15,955	15,955	10,522	(5,433)
Remedial summer education	26,314	26,314	23,922	(2,392)
Share of state sales tax	907,671	907,671	884,683	(22,988)
Special education	449,540	449,540	478,725	29,185
Special education - foster children	16,362	16,362	12,964	(3,398)
Textbook payment	55,105	55,105	58,631	3,526
Vocational education	93,961	93,961	99,972	6,011

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
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For the Year Ended June 30, 2014

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Vocational education - equipment	\$ 2,542	\$ 2,542	\$ 2,580	\$ 38
Other categorical aid	1,320	6,800	6,475	(325)
Total categorical aid	<u>\$ 5,514,366</u>	<u>\$ 5,553,446</u>	<u>\$ 5,907,841</u>	<u>\$ 354,395</u>
Total revenue from the Commonwealth	<u>\$ 5,514,366</u>	<u>\$ 5,553,446</u>	<u>\$ 5,907,841</u>	<u>\$ 354,395</u>
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 257,349	\$ 257,349	\$ 141,448	\$ (115,901)
Title VI, rural and low income schools	-	16,673	8,000	(8,673)
Title VI-B, special education flow-through	220,757	220,757	197,522	(23,235)
Vocational education	18,084	18,084	15,306	(2,778)
Title VI-B, special education pre-school	10,273	10,273	9,942	(331)
School lunch program	300,000	300,000	266,908	(33,092)
School lunch commodities	-	-	26,079	26,079
Class size reduction	52,000	52,000	52,487	487
Project ease grant	-	6,500	5,257	(1,243)
Other federal funds	-	-	135	135
Total categorical aid	<u>\$ 858,463</u>	<u>\$ 881,636</u>	<u>\$ 723,084</u>	<u>\$ (158,552)</u>
Total revenue from the federal government	<u>\$ 858,463</u>	<u>\$ 881,636</u>	<u>\$ 723,084</u>	<u>\$ (158,552)</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 11,044,396</u>	<u>\$ 11,106,649</u>	<u>\$ 10,386,364</u>	<u>\$ (720,285)</u>

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2014

Schedule 2
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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
City council	\$ 41,518	\$ 46,489	\$ 44,055	\$ 2,434
City clerk	14,059	15,059	14,766	293
Total legislative	\$ 55,577	\$ 61,548	\$ 58,821	\$ 2,727
General and financial administration:				
City manager	\$ 192,678	\$ 208,922	\$ 203,980	\$ 4,942
Information technology	61,900	62,873	58,832	4,041
Legal services	50,525	47,155	41,768	5,387
Commissioner of revenue	222,553	222,553	214,862	7,691
Independent auditors	57,600	49,561	46,286	3,275
Treasurer	288,883	350,592	352,981	(2,389)
Central accounting	408,779	409,170	403,363	5,807
Total general and financial administration	\$ 1,282,918	\$ 1,350,826	\$ 1,322,072	\$ 28,754
Board of elections:				
Electoral board and officials	\$ 63,670	\$ 63,670	\$ 61,208	\$ 2,462
Total general government administration	\$ 1,402,165	\$ 1,476,044	\$ 1,442,101	\$ 33,943
Judicial administration:				
Courts:				
Circuit court	\$ 12,000	\$ 12,000	\$ 12,000	\$ -
General district court	6,000	6,000	5,355	645
Magistrates office	4,000	4,000	960	3,040
Clerk of the circuit court	39,000	39,000	37,129	1,871
Sheriff (court)	63,000	63,000	63,000	-
Total courts	\$ 124,000	\$ 124,000	\$ 118,444	\$ 5,556
Commonwealth's attorney:				
Commonwealth's attorney	\$ 47,000	\$ 47,000	\$ 46,544	\$ 456
Total judicial administration	\$ 171,000	\$ 171,000	\$ 164,988	\$ 6,012
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,479,150	\$ 1,528,441	\$ 1,553,750	\$ (25,309)
Sheriff	173,000	173,000	173,000	-
Victim witness	57,753	57,753	54,157	3,596
E-911 wireless grant	553,914	618,591	517,518	101,073
School resource officer	-	11,426	11,426	-
Seizure/forfeiture funds	38,000	38,000	5,120	32,880
Total law enforcement and traffic control	\$ 2,301,817	\$ 2,427,211	\$ 2,314,971	\$ 112,240
Fire and rescue services:				
Volunteer fire department	\$ 201,106	\$ 210,330	\$ 180,056	\$ 30,274
Ambulance service	253,037	261,591	99,307	162,284
Total fire and rescue services	\$ 454,143	\$ 471,921	\$ 279,363	\$ 192,558

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2014

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Public safety: (continued)				
Correction and detention:				
Sheriff (jail)	\$ 195,700	\$ 195,700	\$ 195,700	\$ -
Probation office	6,000	2,826	2,825	1
Total correction and detention	\$ 201,700	\$ 198,526	\$ 198,525	\$ 1
Inspections:				
Building	\$ 123,573	\$ 98,917	\$ 97,426	\$ 1,491
Other protection:				
Animal control	\$ 113,502	\$ 111,247	\$ 110,553	\$ 694
Medical examiner	100	100	60	40
Total other protection	\$ 113,602	\$ 111,347	\$ 110,613	\$ 734
Total public safety	\$ 3,194,835	\$ 3,307,922	\$ 3,000,898	\$ 307,024
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 29,000	\$ 32,393	\$ 26,931	\$ 5,462
Street department	1,069,743	1,043,117	1,025,336	17,781
Snow and ice removal	22,819	29,329	29,278	51
Traffic engineering	82,266	80,266	79,642	624
Street lights	150,350	167,381	167,471	(90)
Total maintenance of highways, streets, bridges & sidewalks	\$ 1,354,178	\$ 1,352,486	\$ 1,328,658	\$ 23,828
Sanitation and waste removal:				
Refuse collection	\$ 323,826	\$ 316,726	\$ 300,623	\$ 16,103
Refuse disposal	378,415	362,415	336,342	26,073
Landfill closure	8,827	8,827	6,522	2,305
Litter control grant	7,000	7,000	6,128	872
Recycling program	27,000	27,000	27,000	-
Total sanitation and waste removal	\$ 745,068	\$ 721,968	\$ 676,615	\$ 45,353
Maintenance of general buildings and grounds:				
General properties	\$ 291,471	\$ 291,471	\$ 248,391	\$ 43,080
Motor vehicular maintenance	56,380	228,081	216,574	11,507
Total maintenance of general buildings and grounds	\$ 347,851	\$ 519,552	\$ 464,965	\$ 54,587
Total public works	\$ 2,447,097	\$ 2,594,006	\$ 2,470,238	\$ 123,768
Health and welfare:				
Health:				
Supplement of local health department	\$ 97,790	\$ 97,790	\$ 96,579	\$ 1,211
Alleghany Highlands free clinic	7,000	7,000	7,000	-
Brain injury services SWVA	-	250	250	-
Total health	\$ 104,790	\$ 105,040	\$ 103,829	\$ 1,211
Mental health and mental retardation:				
Alleghany Highlands community services board	\$ 20,000	\$ 20,000	\$ 20,000	\$ -

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2014

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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Health and welfare: (continued)				
Welfare:				
T. A. P.	\$ 5,000	\$ 5,000	\$ -	\$ 5,000
Safehomes, Inc.	2,000	2,000	2,000	-
Jackson river enterprise	12,000	12,000	12,000	-
Second harvest food bank	600	600	600	-
Alleghany Highlands CSA foster care	1,038,400	1,038,400	908,393	130,007
HOPE, Inc.	500	500	-	500
Social Services	514,000	514,000	366,480	147,520
Other welfare	15,000	15,000	42,188	(27,188)
Total welfare	\$ 1,587,500	\$ 1,587,500	\$ 1,331,661	\$ 255,839
Total health and welfare	\$ 1,712,290	\$ 1,712,540	\$ 1,455,490	\$ 257,050
Education:				
Other instructional costs:				
Contributions to Community College	\$ 1,500	\$ 1,500	\$ 1,500	\$ -
Contribution to City School Board	4,065,465	4,065,465	3,778,021	287,444
Total education	\$ 4,066,965	\$ 4,066,965	\$ 3,779,521	\$ 287,444
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 925,745	\$ 1,200,995	\$ 1,164,703	\$ 36,292
Cultural enrichment:				
Senior center	\$ 122,610	\$ 75,060	\$ 72,021	\$ 3,039
Cemetery	194,346	181,146	177,766	3,380
League of older Americans	1,691	1,691	1,691	-
YMCA	3,100	3,100	-	3,100
Alleghany Highlands arts council	7,200	7,200	7,200	-
Alleghany Highlands arts/craft center	2,800	2,800	2,800	-
Collins Street project	-	615,297	7,676	607,621
Total cultural enrichment	\$ 331,747	\$ 886,294	\$ 269,154	\$ 617,140
Library:				
Contribution to regional library	\$ 110,598	\$ 110,598	\$ 110,598	\$ -
Total parks, recreation, and cultural	\$ 1,368,090	\$ 2,197,887	\$ 1,544,455	\$ 653,432
Community development:				
Planning and community development:				
Planning commission	\$ 7,795	\$ 7,795	\$ 5,062	\$ 2,733
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	444	444	189	255
Economic development	62,143	67,143	53,143	14,000
Total planning and community development	\$ 90,382	\$ 95,382	\$ 78,394	\$ 16,988
Environmental management:				
Contribution to soil and water district	\$ 2,000	\$ 2,000	\$ 2,000	\$ -

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2014

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Community development: (Continued)				
Cooperative extension program:				
Extension office	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Total community development	\$ 97,382	\$ 102,382	\$ 85,394	\$ 16,988
Nondepartmental:				
Contingencies	\$ 113,691	\$ 50,955	\$ 27,710	\$ 23,245
Meadwestvaco interest refund	-	613,025	107,554	505,471
Total nondepartmental	113,691	663,980	135,264	528,716
Debt service:				
Principal retirement	\$ 314,437	\$ 314,437	\$ 314,436	\$ 1
Interest and other fiscal charges	958,815	958,815	791,770	167,045
Total debt service	\$ 1,273,252	\$ 1,273,252	\$ 1,106,206	\$ 167,046
Total General Fund	\$ 15,846,767	\$ 17,565,978	\$ 15,184,555	\$ 2,381,423
Debt Service Fund:				
School Debt Service Fund:				
Debt service:				
Principal retirement	\$ -	\$ 15,985,524	\$ 15,279,100	\$ 706,424
Interest and other fiscal charges	-	98,343	98,343	-
Bond issuance costs	-	71,526	71,526	-
Total School Debt Service Fund	\$ -	\$ 16,155,393	\$ 15,448,969	\$ 706,424
Total Primary Government	\$ 15,846,767	\$ 33,721,371	\$ 30,633,524	\$ 3,087,847
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Education:				
Administration of schools:				
Attendance and health services	\$ 330,443	\$ 312,346	\$ 309,068	\$ 3,278
Executive administration services	303,633	304,279	303,173	1,106
Total administration of schools	\$ 634,076	\$ 616,625	\$ 612,241	\$ 4,384
Instruction costs:				
Instruction costs	\$ 7,607,467	\$ 7,658,426	\$ 7,584,766	\$ 73,660
School food services:				
Administration of school food program	\$ 799,594	\$ 804,977	\$ 503,661	\$ 301,316
Operating costs:				
Pupil transportation	\$ 268,189	\$ 270,223	\$ 270,063	\$ 160
Operation and maintenance of school plant	961,817	1,039,892	1,058,665	(18,773)
Facilities	188,753	82,973	72,634	10,339
Total operating costs	\$ 1,418,759	\$ 1,393,088	\$ 1,401,362	\$ (8,274)
Total education	\$ 10,459,896	\$ 10,473,116	\$ 10,102,030	\$ 371,086

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2014

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Capital projects:				
School capital projects	\$ 584,500	\$ 633,533	\$ 333,530	\$ 300,003
Total Discretely Presented Component Unit - School Board	<u>\$ 11,044,396</u>	<u>\$ 11,106,649</u>	<u>\$ 10,435,560</u>	<u>\$ 671,089</u>

Other Statistical Section

City of Covington, Virginia
Government-Wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water Department	Sewer Department	Total
2013-14	\$ 1,569,154	\$ 164,988	\$ 3,152,116	\$ 2,702,655	\$ 1,448,418	\$ 4,064,623	\$ 1,515,073	\$ 77,718	\$ 1,135,754	\$ 1,114,862	\$ 1,256,623	\$ 18,201,984
2012-13	1,401,609	124,651	2,889,561	2,837,163	1,351,070	4,292,522	1,400,941	99,723	1,003,044	1,304,304	1,206,873	17,911,461
2011-12	1,438,892	123,380	3,021,155	2,700,887	1,758,368	5,874,905	1,212,345	70,625	1,052,480	1,173,197	1,066,781	19,493,015
2010-11	1,534,458	134,998	2,955,125	3,425,828	1,765,361	4,683,660	1,307,295	79,316	1,198,756	1,213,104	994,309	19,292,210
2009-10	1,483,169	122,901	2,819,474	1,913,115	1,700,110	3,825,555	1,320,420	99,201	1,256,643	1,322,656	998,491	16,861,735
2008-09	1,580,103	61,292	2,979,472	3,802,359	1,494,392	4,551,266	1,195,610	110,214	864,835	1,243,549	1,004,442	18,887,534
2007-08	1,429,516	78,185	2,770,525	3,824,813	1,361,609	4,183,893	1,220,322	107,562	894,475	1,244,985	976,235	18,092,120
2006-07	1,348,829	94,087	1,806,435	2,859,288	1,338,133	4,127,562	1,162,741	131,916	225,605	1,200,931	956,660	15,252,187
2005-06	1,282,421	96,343	2,633,846	2,715,275	1,940,992	4,354,525	1,723,619	148,008	253,885	1,221,055	976,948	17,346,917
2004-05	1,253,035	70,963	2,507,755	2,693,743	1,763,883	4,163,615	1,619,498	100,564	275,249	1,131,485	961,547	16,541,337

City of Covington, Virginia
Government-Wide Revenues
Last Ten Fiscal Years

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES						
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Gain on Sale of Capital Assets	Total
2013-14	\$ 4,368,558	\$ 2,442,710	\$ 632,377	\$	6,969,022	3,660,422	78,598	\$ 243,652	\$ 899,272	\$ -	\$ 19,294,611
2012-13	4,045,390	2,467,313	468,882		6,763,991	3,979,168	80,082	14,490	893,226	-	18,712,542
2011-12	4,071,784	2,614,381	1,319,432		7,225,937	3,668,311	49,372	48,748	852,781	-	19,850,746
2010-11	4,170,379	3,304,823	684,814		7,184,718	3,445,125	66,865	66,814	917,297	7,011	19,847,846
2009-10	4,165,888	2,618,316	75,794		7,051,615	3,170,222	66,549	186,667	896,005	-	18,231,056
2008-09	4,006,079	2,696,980	4,900		6,937,869	3,396,974	237,828	94,651	825,521	-	18,200,802
2007-08	4,074,449	3,076,482	2,800		6,618,780	3,533,607	574,455	124,710	-	-	18,005,283
2006-07	3,947,907	2,343,564	441,313		6,984,763	3,452,298	79,295	567,379	843,290	-	18,659,809
2005-06	3,385,156	2,761,961	12,466		6,690,501	3,450,717	98,716	268,694	354,969	-	17,023,180
2004-05	3,314,632	2,937,429	355,952		6,350,711	3,588,473	33,427	140,613	555,303	-	17,276,540

Table 3

City of Covington, Virginia
General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural	Community Development	Capital Projects	Non-departmental	Debt Service (3)	Total
2013-14	\$ 1,442,101	\$ 164,988	\$ 3,000,898	\$ 2,470,238	\$ 1,455,490	\$ 10,103,530	\$ 1,544,455	\$ 85,394	\$ 333,530	\$ 135,264	\$ 1,204,549	\$ 21,940,437
2012-13	1,366,664	124,651	3,283,642	2,469,270	1,377,241	10,343,711	1,269,112	99,723	226,457	-	1,445,138	22,005,609
2011-12	1,679,198	123,380	3,008,874	2,269,664	1,781,741	10,533,161	1,691,179	70,625	70,148	-	1,725,188	22,953,158
2010-11	1,428,913	134,998	2,715,021	2,527,319	1,790,260	10,189,721	1,280,563	79,316	175,538	11,192	1,808,852	22,141,693
2009-10	1,334,414	172,901	2,955,446	2,696,909	1,724,165	9,833,368	1,484,555	99,201	869,412	-	1,801,162	22,921,533
2008-09	1,391,596	61,292	2,852,747	2,825,693	1,514,709	10,524,500	1,390,990	110,214	13,001,350	20,118	1,562,846	35,256,055
2007-08	1,433,034	78,185	2,589,022	3,877,615	1,397,869	10,692,037	1,329,602	107,562	9,022,652	816	1,548,023	32,076,417
2006-07	1,425,506	94,087	2,582,309	2,985,907	1,338,133	10,062,235	2,237,175	132,564	716,075	3,303	871,293	22,448,587
2005-06	1,225,103	96,343	2,449,642	2,585,665	1,939,910	9,760,811	1,864,709	147,992	813,456	5,674	1,291,859	22,181,164
2004-05	1,291,565	70,963	3,262,783	2,620,625	1,810,388	9,692,992	1,741,903	100,474	244,943	-	888,696	21,725,332

(1) Includes all governmental funds of the Primary Government and its Discretely Presented Component Unit.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit.

(3) For fiscal year 2009-10, excludes bond anticipation refunding of \$15,000,000 and related bond issuance cost of \$232,400. For fiscal year 2011-12, excludes bond issuance cost of \$110,350. For fiscal year 2013-14, excludes refunding of \$15,279,100 and related bond issuance cost of \$71,526.

City of Covington, Virginia
General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes		Other Local Taxes		Permits, Privilege Fees, Regulatory Licenses		Fines and Forfeitures		Revenue from the Use of Money and Property		Charges for Services		Miscellaneous		Recovered Costs		Inter-governmental (2)		Total	
2013-14	\$	6,883,416	\$	3,660,422	\$	11,102	\$	7,488	\$	71,181	\$	1,185,004	\$	316,127	\$	109,596	\$	10,000,137	\$	22,244,473
2012-13		6,734,155		3,979,168		14,758		7,613		80,839		986,993		266,252		85,741		9,796,144		21,951,663
2011-12		7,227,463		3,668,311		30,126		12,163		50,459		1,142,389		308,716		80,095		9,962,710		22,482,432
2010-11		7,149,152		3,445,125		23,668		17,975		68,253		1,122,088		292,012		60,833		10,053,004		22,232,110
2009-10		7,058,693		3,170,222		9,584		33,647		67,929		946,815		213,963		175,928		9,813,945		21,490,726
2008-09		6,915,610		3,396,974		10,169		42,445		240,204		1,121,997		178,158		288,769		9,786,230		21,980,556
2007-08		6,949,940		3,533,607		15,574		32,644		575,228		1,095,585		122,925		171,692		9,546,958		22,044,153
2006-07		6,705,292		3,452,298		11,610		31,006		79,295		1,038,299		567,379		179,877		10,306,054		22,371,110
2005-06		6,597,703		3,450,717		10,182		38,443		98,843		1,083,947		267,250		148,868		8,867,579		20,563,532
2004-05		6,457,064		3,588,473		11,600		23,813		33,967		918,580		170,854		269,656		9,306,820		20,780,827

(1) Includes all governmental funds of the Primary Government and its Discretely Presented Component Unit.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit.

Table 5

City of Covington, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1, 3)	Current Tax Collections (1, 3)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of		Percent of	
						Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1,2)	Delinquent Taxes to Tax Levy	Delinquent Taxes to Tax Levy
2013-14	\$ 7,368,660	\$ 7,235,703	98.20%	\$ 117,095	7,352,798	99.78%	\$ 579,245	7.86%	
2012-13	7,676,550	7,565,315	98.55%	86,064	7,651,379	99.67%	473,991	6.17%	
2011-12	7,683,731	7,605,442	98.98%	94,049	7,699,491	100.21%	453,285	5.90%	
2010-11	7,626,798	7,545,962	98.94%	80,400	7,626,362	99.99%	427,671	5.61%	
2009-10	7,535,231	7,396,523	98.16%	130,551	7,527,074	99.89%	439,189	5.83%	
2008-09	7,383,021	7,300,339	98.88%	67,143	7,367,482	99.79%	407,773	5.52%	
2007-08	7,412,981	6,803,543	91.78%	73,600	6,877,143	92.77%	512,105	6.91%	
2006-07	7,154,153	6,670,832	93.24%	68,673	6,739,505	94.20%	448,588	6.27%	
2005-06	7,067,230	6,465,933	91.49%	77,498	6,543,431	92.59%	408,182	5.78%	
2004-05	6,857,539	6,817,256	99.41%	81,683	6,898,939	100.60%	449,657	6.56%	

(1) Exclusive of penalties and interest.

(2) Delinquent tax collections are exclusive of land redemptions.

(3) Includes amounts paid under the Personal Property Tax Relief Act.

Table 6

City of Covington, Virginia
Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate (1)	Personal Property and Mobile Homes	Machinery and Tools	Public Utility (2)			Total
				Real Estate	Personal Property		
2013-14	\$ 274,016,639	\$ 26,072,593	\$ 55,549,130	\$ 100,018,610	\$ -	\$ 455,656,972	
2012-13	272,817,085	27,087,296	74,874,215	25,072,535	110,208	399,961,339	
2011-12	271,839,495	26,780,775	76,975,965	23,878,024	18,249	399,492,508	
2010-11	283,502,400	26,077,480	76,660,640	22,727,986	89,861	409,058,367	
2009-10	282,219,900	24,892,990	76,096,510	21,401,377	35,464	404,646,241	
2008-09	281,865,500	22,555,370	75,747,170	21,429,843	72,863	401,670,746	
2007-08	280,613,600	22,563,190	76,476,640	19,700,864	7,786	399,362,080	
2006-07	247,361,800	22,315,930	75,520,600	20,174,443	8,201	365,380,974	
2005-06	244,652,300	21,888,230	75,115,640	19,402,713	20,924	361,079,807	
2004-05	244,055,089	19,427,376	73,783,780	20,211,474	14,129	357,491,848	

(1) Real estate is assessed at 100% of fair market value.

(2) Assessed values are established by the State Corporation Commission.

Table 7

City of Covington, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
2013-14	\$ 0.69	\$ 0.69	\$ 5.60	\$ 5.52
2012-13	0.69	0.69	5.60	5.52
2011-12	0.69	0.69	5.60	5.52
2010-11	0.66	0.66	5.60	5.52
2009-10	0.66	0.66	5.60	5.52
2008-09	0.66	0.66	5.60	5.52
2007-08	0.66	0.66	5.60	5.52
2006-07	0.66	0.66	5.60	5.52
2005-06	0.66	0.66	5.60	5.52
2004-05	0.66	0.66	5.60	5.53

(1) Per \$100 of assessed value.

City of Covington, Virginia
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2013-14	\$ 5,961	\$ 455,657	\$ 25,577,766	5.61%	\$ 4,291
2012-13	5,961	399,961	28,957,022	7.24%	4,858
2011-12	5,961	399,493	35,499,359	8.89%	5,955
2010-11	5,961	409,058	31,830,269	7.78%	5,340
2009-10	6,303	404,646	31,497,499	7.78%	4,997
2008-09	6,303	401,671	32,624,875	8.12%	5,176
2007-08	6,303	399,362	33,812,244	8.47%	5,364
2006-07	6,303	365,381	7,499,055	2.05%	1,190
2005-06	6,303	361,080	8,506,460	2.36%	1,350
2004-05	6,303	357,492	9,529,596	2.67%	1,512

(1) Bureau of the Census.

(2) Real property assessed at 100% of fair market value.

(3) Includes all long-term general obligation bonded debt, revenue bonds, bond anticipation notes, and literary fund loans. Excludes landfill closure/post-closure care liability, capital leases, and compensated absences.

Table 9

City of Covington, Virginia
Ratio of Annual Debt Service Expenditures for General Bonded
Debt to Total General Governmental Expenditures (1)
Last Ten Fiscal Years

Fiscal Year	Principal (3)	Interest (2)	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2013-14	\$ 314,436	\$ 890,113	\$ 1,204,549	\$ 21,940,437	5.49%
2012-13	473,155	971,983	1,445,138	22,005,609	6.57%
2011-12	532,023	1,193,165	1,725,188	22,953,158	7.52%
2010-11	551,540	1,257,312	1,808,852	22,141,693	8.17%
2009-10	569,703	1,231,459	1,801,162	22,921,533	7.86%
2008-09	668,841	894,005	1,562,846	35,256,055	4.43%
2007-08	650,800	237,312	888,112	32,076,417	2.77%
2006-07	643,813	227,480	871,293	22,448,587	3.88%
2005-06	872,509	253,748	1,126,257	22,181,164	5.08%
2004-05	612,263	276,433	888,696	21,725,332	4.09%

(1) Includes General fund of the Primary Government and Operating Fund
of the Discretely Presented Component Unit - School Board.

(2) Excludes bond issuance and other costs.

(3) Excludes refinancing of bond anticipation note.

City of Covington, Virginia
Computation of Legal Debt Margin
At June 30, 2014

Legal Debt Limit:	
10% of Assessed Value of Taxable Real Estate \$274,016,639	\$ 27,401,664
Deduct:	
Debt Payable	14,124,000
Legal Margin for Creation of Additional Debt	<u>\$ 13,277,664</u>

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the City Council
City of Covington, Virginia
Covington, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Covington, Virginia's basic financial statements and have issued our report thereon dated December 14, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Covington, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Covington, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Virginia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. [2014-001 and 2014-002]

Compliance and Other Matters

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

City of Covington, Virginia's Response to Findings

City of Covington, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Covington, Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Turner, Co. Associates

Blacksburg, Virginia
December 14, 2014

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

To the Members of the City Council
City of Covington
Covington, Virginia

Report on Compliance for Each Major Federal Program

We have audited City of Covington, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Covington, Virginia's major federal programs for the year ended June 30, 2014. City of Covington, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Covington, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Covington, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Covington, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Covington, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of City of Covington, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Covington, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Covington, Virginia's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Turner, & Associates

Blacksburg, Virginia
December 14, 2014

City of Covington, Virginia
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number		Federal Expenditures
DEPARTMENT OF AGRICULTURE:				
Pass Through Payments:				
<i>Department of Forestry:</i>				
Cooperative Forestry Assistance	10.664	50105		\$ 1,352
Child Nutrition Cluster:				
<i>Department of Agriculture:</i>				
Food Distribution-Schools (Note 3)	10.555	Not available	\$ 26,079	
<i>Department of Education:</i>				
National School Lunch Program	10.555	40623	233,521	\$ 259,600
School Breakfast Program	10.553	40591		33,387
Total Department of Agriculture				<u>\$ 294,339</u>
DEPARTMENT OF EDUCATION:				
Pass Through Payments:				
<i>Department of Education:</i>				
Title I - Grants to Local Educational Agencies	84.010	42901		\$ 141,448
Special Education Cluster:				
Special Education - Grants to States	84.027	43071		197,522
Special Education - Preschool Grants	84.173	62521		9,942
Career and Technical Education - Basic Grants to States	84.048	61095		15,306
State assessments and related activities	84.360			
Improving Teacher Quality - State Grants	84.367	61480		52,487
Rural Education	84.358	43481		8,000
Advanced Placement Program	84.330	60957		135
Total Department of Education				<u>\$ 424,840</u>
DEPARTMENT OF JUSTICE:				
Pass Through Payments:				
<i>Department of Education:</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	87156	\$ 5,257	
<i>Department of Criminal Justice Services:</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	12DJBX0272	974	\$ 6,231
Crime Victim Assistance	16.575	56000, 66000		30,969
Total Department of Justice				<u>\$ 37,200</u>
DEPARTMENT OF HOMELAND SECURITY:				
Pass Through Payments:				
<i>Department of Emergency Management:</i>				
Emergency Management Performance Grants	97.042	77602		<u>\$ 32,835</u>
DEPARTMENT OF TRANSPORTATION:				
Pass Through Payments:				
<i>Department of Motor Vehicles:</i>				
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	53170		\$ 3,288
State and Community Highway Safety	20.600	54302, 54421		1,293
Highway Planning and Construction	20.205	Not available		6,076
Total Department of Transportation				<u>\$ 10,657</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Pass Through Payments:				
<i>Department of Social Services:</i>				
Promoting Safe and Stable Families	93.556	0950113		\$ 8,343
Temporary Assistance for Needy Families	93.558	0400113,0400114		5,700
Chafee Education and Training Vouchers Program	93.599	9160113		1,455
Foster Care - Title IV-E	93.658	1100114		11,933

City of Covington, Virginia
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor / State Pass-Through Grantee/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<i>DEPARTMENT OF HEALTH AND HUMAN SERVICES: (Continued)</i>			
Pass Through Payments: (Continued)			
<i>Department of Social Services: (Continued)</i>			
Adoption Assistance	93.659	1120113,1120114	\$ 53,470
Social Services Block Grant	93.667	1000113,1000114	20,851
Chafee Foster Care Independence Program	93.674	915113,9150114	2,141
Total Department of Health and Human Services			<u>\$ 103,893</u>
Total Expenditures of Federal Awards			<u>\$ 903,764</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE 1--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Covington, Virginia under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Covington, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Covington, Virginia.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

NOTE 3--FOOD DISTRIBUTION:

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2014, the Covington City School Board held food commodities totaling \$8,077 in inventory.

NOTE 4 -- RELATIONSHIP TO THE FINANCIAL STATEMENTS:

Federal expenditures, revenues and capital contributions are reported in the City's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General Fund

\$ 180,680

Component Unit School Board:

School Operating Fund

\$ 723,084

Total Federal Expenditures per Basic Financial Statements

\$ 903,764

City of Covington, Virginia

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

2014-001

Criteria:	A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.
Condition:	The City lacks proper segregation of duties over the following functions: Collections in the Treasurer's office and Accounts Payable and Payroll processes.
Effect of Condition:	There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.
Cause of Condition:	The City lacks the funding to fully support a completely segregated finance department.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section II - Financial Statement Findings (Continued)

2014-001 (Continued)

Recommendation:	Management should further try to segregate duties amongst current staff to help alleviate risk created by improper segregation of duties.
Management's Response:	Management acknowledges that internal controls over the functions listed above lack proper segregation of duties and is considering ways to improve its segregation of duties over its accounts payable and payroll processes. In addition, the City acknowledges that the Treasurer's office lacks proper segregation of duties, however, to alleviate same would require additional staff. Due to cost constraint, the City has decided not to address the aforementioned internal control deficiency.

2014-002

Criteria:	Per Statement of Auditing Standards 115 (SAS 115), identification of adjustments to the financial statements that was not detected by the entity's internal controls indicates that a significant deficiency exists.
Condition:	The financial statements, as presented for audit, did not contain all necessary adjustments to comply with generally accepted principles (GAAP). As such, the auditor proposed adjustments to the financial statements.
Cause of Condition:	Communication between the City and its consultant did not allow for proper accrual of accounts payable. This particularly relates to timely year-end accruals and capital assets.
Effect of Condition:	There is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal controls over financial reporting.
Recommendation:	The City should review the auditors' proposed audit adjustments for fiscal year 2014 and develop a plan to ensure that trial balances and related schedules are presented accurately for audit.
Management's Response:	The City will review the auditors' proposed audit adjustments for fiscal year 2014 and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Audit Findings and Questioned Costs

Financial Statement Findings 2013-1 and 2013-2 is repeating during the current year as 2014-001 and 2014-002.