

**CITY OF COVINGTON, VIRGINIA**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2013**

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**CITY OF COVINGTON, VIRGINIA**  
**FINANCIAL REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2013**

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## INTRODUCTORY SECTION

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# CITY OF COVINGTON, VIRGINIA

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## CITY COUNCIL

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Thomas H. Sibold, Jr., Mayor	
William B. Zimmerman, Jr., Vice-Mayor	Stephanie R. Clark
David S. Crosier	Kim L. Warlitner

## CITY SCHOOL BOARD

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Eddy Clemons, Chair	
Richard W. Fuhrman, Vice-Chair	Cynthia Bennett
Ronald C. Morrisette	Tammy Scruggs-Duncan

## OTHER OFFICIALS

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City Manager, Interim .....	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 Wright
Superintendent of Schools .....	Thomas E. Long
Chief of Police .....	Joseph B. Broughman

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## FINANCIAL SECTION

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT

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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 discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Covington, Virginia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City'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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia as of June 30, 2013, 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.

### ***Emphasis of Matter***

As described in Note 1 to the financial statements, in 2013, the City of Covington, Virginia adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **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 5-29, budgetary comparison information, and schedules of pension and OPEB funding progress 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, supporting schedules, and other 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, supporting schedules, 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, supporting schedules, 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 other 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 16, 2013, on our consideration of the 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 City of Covington, Virginia's internal control over financial reporting and compliance.

*Robinson, Turner, & Associates*

Blacksburg, Virginia  
December 16, 2013

## CITY OF COVINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS

### FISCAL YEAR 2013 (JULY 1, 2012 – JUNE 30, 2013)

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, 2013.

#### Financial Highlights

- In Governmental Activities, the assets and deferred outflows of resources of the City of Covington exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$113,646 (net position). Of this amount, -\$710,531 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Covington's total net position (Governmental Activities & Business Type Activities) increased \$147,313 from End of Year FY 2012 to End of Year FY 2013 as Total Assets increased at a value greater than Total Liabilities.
- At the close of the current fiscal year, the City of Covington's governmental funds reported an *unassigned* general fund balance of \$1,968,151 for a decrease of \$139,073 in comparison with the prior year.
- At the close of the current fiscal year, the City of Covington's governmental funds reported combined fund balances of \$6,452,399 a decrease of \$435,701 in comparison with the prior year.
- 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 \$2,296,405, or approximately 14.9% of total general fund expenditures.
- The City of Covington's School/Capital Reserve Debt Fund increased by \$574,612 during the current fiscal year to \$3,143,389.

#### 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 16-17 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 eleven 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. Data from the other eight governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

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 18-21 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. .

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 is 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.

The basic proprietary fund financial statements can be found on pages 22-24 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 25-59 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 \$11,307,839 at the close of the most recent fiscal year.

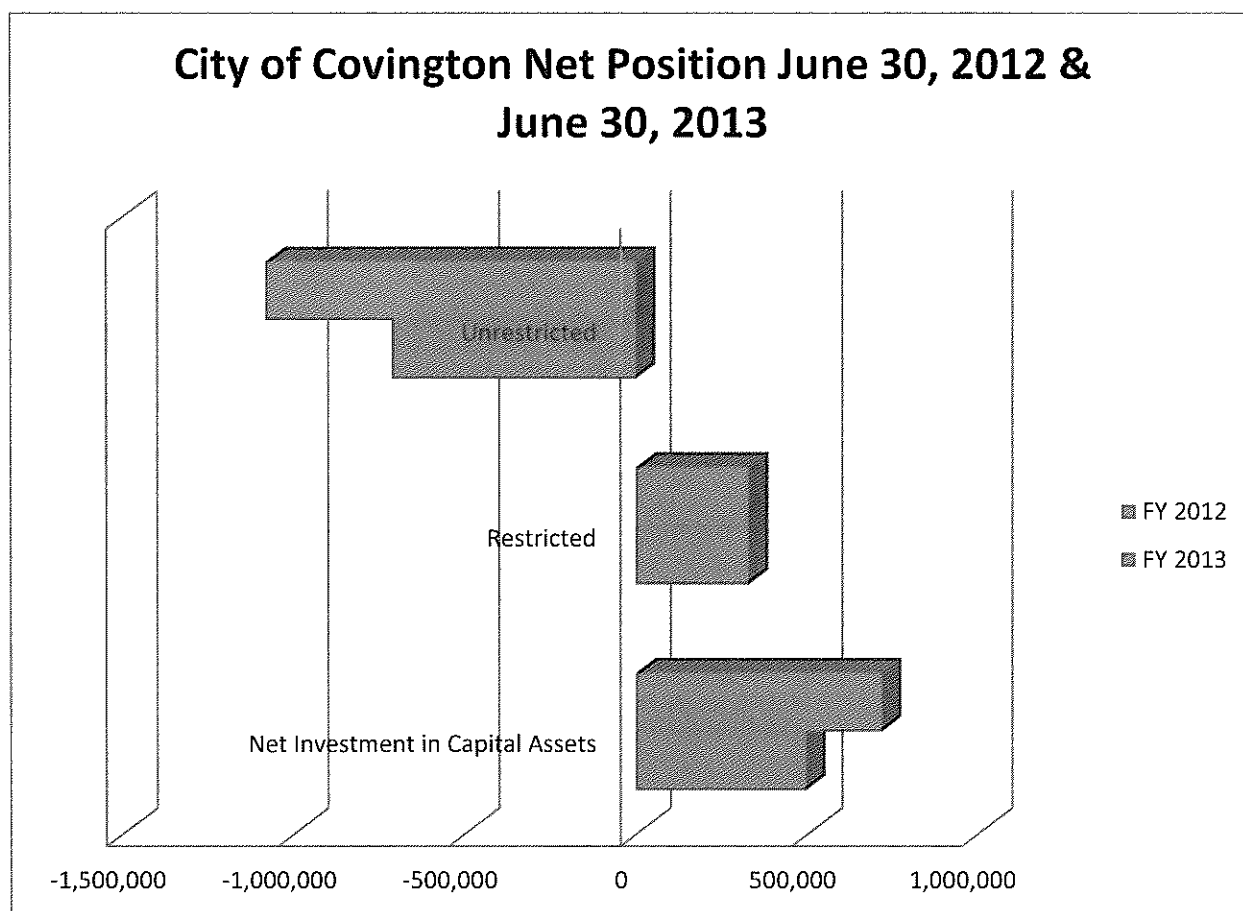
### City of Covington's Net Position

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Assets:</b>						
Current and other assets	\$ 10,596,168	\$ 9,540,471	\$ 9,727,618	\$ 3,416,353	\$ 20,323,786	\$ 12,956,824
Capital assets	28,548,414	29,211,684	16,545,872	13,650,178	45,094,286	42,861,862
<b>Total Assets</b>	<b>39,144,582</b>	<b>38,752,155</b>	<b>26,273,490</b>	<b>17,066,531</b>	<b>65,418,072</b>	<b>55,818,686</b>
<b>Deferred Outflows of Resources</b>	<b>58,087</b>	<b>85,617</b>	<b>8,830</b>	<b>17,661</b>	<b>66,917</b>	<b>103,278</b>
<b>Liabilities:</b>						
Current liabilities	2,377,305	1,656,691	1,480,048	914,733	3,857,353	2,571,424
Long-term liabilities	34,328,039	34,844,347	13,608,079	5,629,034	47,936,118	40,473,381
<b>Total Liabilities</b>	<b>36,705,344</b>	<b>36,501,038</b>	<b>15,088,127</b>	<b>6,543,767</b>	<b>51,793,471</b>	<b>43,044,805</b>
<b>Deferred Inflows of Resources</b>	<b>2,383,679</b>	<b>2,370,401</b>	<b>-</b>	<b>-</b>	<b>2,383,679</b>	<b>2,370,401</b>
<b>Net Position:</b>						
Net investment in capital assets	495,923	719,242	7,832,605	7,559,648	8,328,528	8,278,890
Restricted	328,254	328,254	288,506	-	616,760	328,254
Unrestricted	(710,531)	(1,081,163)	3,073,082	2,980,777	2,362,551	1,899,614
<b>Total net position</b>	<b>\$ 113,646</b>	<b>\$ (33,667)</b>	<b>\$ 11,194,193</b>	<b>\$ 10,540,425</b>	<b>\$ 11,307,839</b>	<b>\$ 10,506,758</b>

The City of Covington's net position reflects its investment in capital assets of which 436.4% (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 288.9% represents resources that are subject to external restrictions on how they may be used. The remaining balance of -\$710,531 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City of Covington is able to report positive balances in the reported categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities (Water and Sewer). However, the Motor Vehicle Service finished the year with a negative total net position which will be discussed later. The same situation held true for the prior fiscal year for the Motor Vehicle Service Fund.



The City of Covington's total net position increased \$801,081 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 increased \$147,313 from the prior fiscal year for an ending balance of -\$33,667. While the current economic conditions certainly had an impact on the City of Covington, expenses in general government administration, public safety, education, and health and welfare were all reduced from the previous fiscal year.

### City of Covington's Changes in Net Position

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Revenues:</b>						
<b>Program Revenues</b>						
Charges for services	\$ 891,227	\$ 1,055,352	\$ 3,154,163	\$ 3,016,432	\$ 4,045,390	\$ 4,071,784
Operating grants and contributions	2,467,313	2,614,381	-	-	2,467,313	2,614,381
Capital grants and contributions	105,641	494,114	363,241	825,318	468,882	1,319,432
<b>General Revenues</b>						
Property taxes	6,763,991	6,842,672	-	-	6,763,991	6,842,672
Other taxes	3,979,168	3,668,311	-	-	3,979,168	3,668,311
Grants and contributions not restricted to specific programs	893,226	852,781	-	-	893,226	852,781
Other	82,688	60,399	11,884	37,721	94,572	98,120
<b>Total Revenues</b>	<b>15,183,254</b>	<b>15,588,010</b>	<b>3,529,288</b>	<b>3,879,471</b>	<b>18,712,542</b>	<b>19,467,481</b>
<b>Expenses:</b>						
General government administration	1,401,609	1,438,892	-	-	1,401,609	1,438,892
Public safety	2,889,561	3,021,155	-	-	2,889,561	3,021,155
Public works	2,837,163	2,700,887	-	-	2,837,163	2,700,887
Education	4,292,522	5,874,905	-	-	4,292,522	5,874,905
Culture and recreation	1,400,941	1,212,345	-	-	1,400,941	1,212,345
Interest on long-term debt	1,003,044	985,217	-	-	1,003,044	985,217
Judicial administration	124,651	123,380	-	-	124,651	123,380
Health and welfare	1,351,070	1,758,368	-	-	1,351,070	1,758,368
Community development	99,723	70,625	-	-	99,723	70,625
<b>Total governmental expenses</b>	<b>15,400,284</b>	<b>17,185,774</b>	<b>-</b>	<b>-</b>	<b>15,400,284</b>	<b>17,185,774</b>
Water	-	-	1,304,304	1,168,763	1,304,304	1,168,763
Sanitation	-	-	1,206,873	1,081,330	1,206,873	1,081,330
<b>Total business type expenses</b>	<b>-</b>	<b>-</b>	<b>2,511,177</b>	<b>2,250,093</b>	<b>2,511,177</b>	<b>2,250,093</b>
<b>Total expenses</b>	<b>15,400,284</b>	<b>17,185,774</b>	<b>2,511,177</b>	<b>2,250,093</b>	<b>17,911,461</b>	<b>19,435,867</b>
<b>Increase (decrease) in net position before transfers</b>	<b>(217,030)</b>	<b>(1,597,764)</b>	<b>1,018,111</b>	<b>1,629,378</b>	<b>801,081</b>	<b>31,614</b>
Transfers	364,343	339,737	(364,343)	(339,737)	-	-
<b>Increase (decrease) in net position</b>	<b>147,313</b>	<b>(1,258,027)</b>	<b>653,768</b>	<b>1,289,641</b>	<b>801,081</b>	<b>31,614</b>
Net position - beginning, as restated	(33,667)	1,224,360	10,540,425	9,250,784	10,506,758	10,475,144
<b>Net position - ending</b>	<b>\$ 113,646</b>	<b>\$ (33,667)</b>	<b>\$ 11,194,193</b>	<b>\$ 10,540,425</b>	<b>\$ 11,307,839</b>	<b>\$ 10,506,758</b>

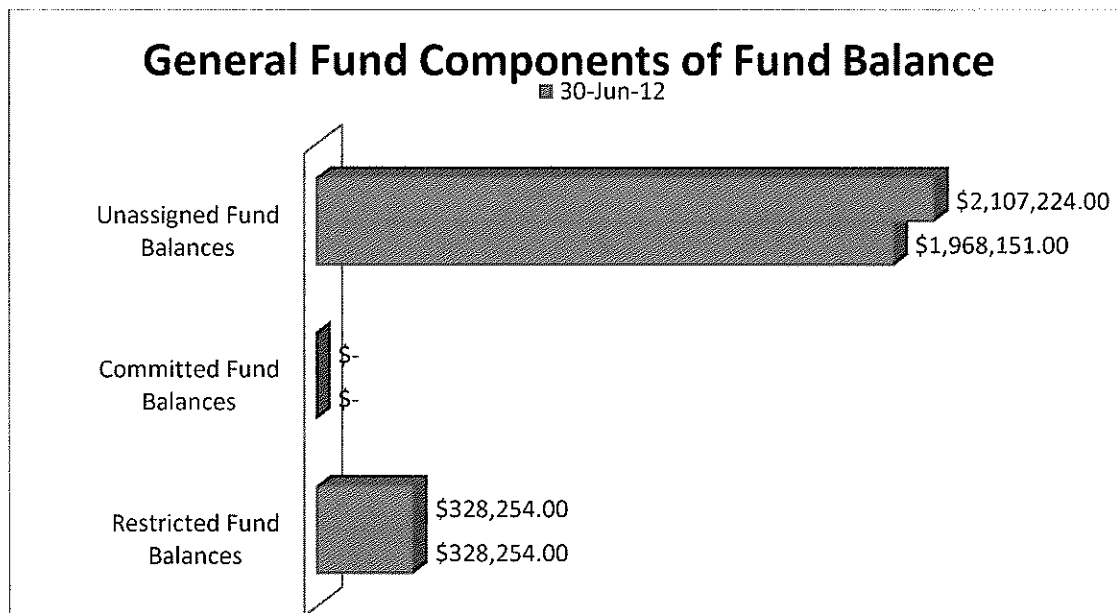
**Business-Type Activities:** For the City of Covington's business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$11,194,193. The total increase in net position for business-type activities (water and sanitation/sewer) was \$653,768 or 6.2% from the prior fiscal year. The growth, in part, is attributable to a \$1.00 monthly sewer rate increase enacted for the fiscal year 2012-13 budget as well as a \$361,841 Capital Contribution/Construction Grant in the Sewer Fund.

## 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.

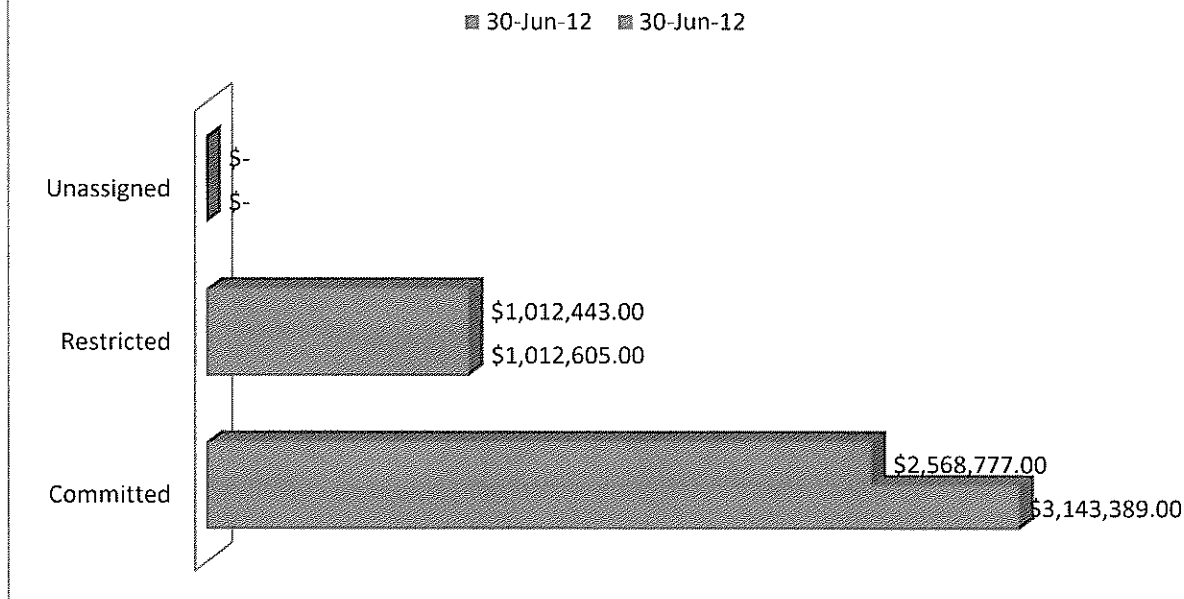
At June 30, 2013, the City of Covington's governmental funds reported combined fund balances of \$6,452,399 an increase of \$435,701 in comparison with the prior year. Approximately 30.5% of this amount (\$1,968,151) constitutes *unassigned fund balance*, which is available for spending at the government's 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 (\$1,012,605), 2) restricted for particular purposes (\$328,254), 3) committed for particular purposes (\$3,143,389).



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 \$2,296,405 while total fund balance increased to \$6,452,399. 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 12.8 percent of total general fund expenditures, while total fund balance represents approximately 41.8 percent of that same amount.



## Other Governmental Funds Components of Fund Balance June 30, 2012 and 2013



The fund balance of the City of Covington's general fund decreased \$139,073 during the current fiscal year. This increase is due in part to excess expenditures over revenues in the amount of \$252,303.

The school-capital reserve debt service fund, a major fund, had a \$574,612 increase in fund balance during the current fiscal year which put that fund balance at \$3,143,389. The increase is attributed to a \$300,000 payment from the school system, and \$274,612 generated from the retirement of previous debt services in the city's general fund.

The School Construction Fund (2007 IDA Lease Revenue Bond reserve) increased \$162 to \$1,012,605 during the fiscal year closing June 30, 2013. This fund, along with the general fund and school-capital reserve debt fund comprise the total fund balance of \$7,532,144. Management change will inquire related to earning/return of \$162 based on minimum \$1,012,443 deposited in account for entire year.

**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 year was \$1,783,098 and for the Sewer Fund was \$1,289,984. The total growth in net position for both funds was \$74,942 and \$578,826 respectively. As noted earlier in the discussion of business-type activities, the increase for the Sewer Fund results from a \$1.00 per month rate increase and a sewer fund capital/construction grant.

The Motor Vehicle Internal Service Fund finished the current year with a negative ending net position of (\$5,476) and operating loss of (\$6,141). With the change in management staffing, this item will be addressed.

## General Fund Budgetary Highlights

*Original budget compared to final budget.* During the year, there were a couple of significant amendments to the original budgeted appropriations. These included the return of funds to the schools as well as a fire training facility grant. There was a need to make amendments within departments to reallocate appropriations. The largest move of funds being the appropriation from the contingency fund related to the purchase of two police cruisers.

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

*Sanitation Waste Removal \$(159,139), Real Estate Taxes \$(73,478), and Personal Property Taxes/Machinery and Tools Taxes \$(495,325). Local Sales and Use Taxes \$248,202, Business License Taxes \$64,870, and Meals Taxes \$48,371.*

The largest shortfall above, Personal Property Taxes/Machinery and Tools Taxes, is greatly attributed (\$433,820) due to the refund to Mead Westvaco as discussed later.

The 2<sup>nd</sup> largest shortfall above, Sanitation Waste Removal, is attributed to a significant change in the rate fee structure. This increase of approximately 75% (recommended by previous manager and engineering firm) drove commercial customers to seek alternative disposal means which were much cheaper for them. The issue has been recognized by management, and city council will enact changes to the rate structure in an effort to recover these revenues. The increases are the result of the construction of a \$250,000,000 bio-mass boiler at Mead Westvaco. Support businesses and the influx of construction workers related to the project were the driving factors in additional 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.

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 professional financial advisor familiar with local government. The 2007 IDA Lease Revenue Fund of \$1,012,605 will be the first fund balance to be evaluated.

Review of actual revenues and expenditures compared to the appropriations in the final budget yields variances on both the revenue and expenditure sides. The total revenue variance of \$(631,674) was driven by an Intergovernmental Revenue estimate shortfall that totals \$(328,424) and the refund of machinery and tools tax \$(433,820). Although charges for services \$(155,694) and general property taxes other than machinery and tools taxes \$(123,300) revenues fell significantly short (shown above) of the final budgeted amount, other local taxes collected exceeded final budgeted amount by \$413,688. Total expenditures finished the year at \$1,165,797 below the final budgeted amount.

## 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, 2013, amounts to \$45,094,286 (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 5.2%.

### City of Covington's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Capital Assets (net of depreciation)</b>						
Land	\$1,955,871	\$1,955,871			\$1,955,871	\$1,955,871
Buildings	23,486,753	24,243,615			23,486,753	24,243,615
Machinery, equipment, and vehicles	2,374,017	1,955,912			2,374,017	1,955,912
Infrastructure	689,795	734,563			689,795	734,563
Construction in Progress	41,978	321,723			41,978	321,723
Construction in Progress Water			115,985	0	115,985	0
Water System			3,135,035	3,273,641	3,135,035	3,273,641
Construction in Progress Sewer			3,961,335	6,721,179	3,961,335	6,721,179
Sewer System			9,333,517	3,655,358	9,333,517	3,655,358
<b>Total</b>	<b>\$28,548,414</b>	<b>\$29,211,684</b>	<b>\$16,545,872</b>	<b>\$13,650,178</b>	<b>\$45,094,286</b>	<b>\$42,861,862</b>

Governmental Capital assets value decreased based on an increase in accumulated depreciation. An increase in Business-Type Capital assets was realized due to the wastewater improvement projects that are taking place in the city.

Additional information on the City of Covington's capital assets can be found in Note 12 on pages 54-56 of this report.

**Long-term Debt:** At the end of the current fiscal year, the City of Covington had a total governmental activities debt of \$34,910,863. Of this amount, \$28,957,022 is debt backed by the full faith and credit of the government. The remainder of the City of Covington's long-term obligations is comprised of landfill closure liabilities, capital leases, retiree health insurance costs, and employee leave costs.

### CITY OF COVINGTON'S Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	Total
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$17,906,100	\$18,235,586			\$17,906,100	\$18,235,586
Deferred Amounts:						
Bond Premiums	-	-	720,990		720,990	
Discounts	(239,078)	(244,914)			(239,078)	(244,914)
Revenue Bonds	11,290,000	11,340,000	13,432,955	6,108,191	24,722,955	17,448,191
Capital Leases	166,161	259,830			166,161	259,830
Landfill Closure/Post Closure Liability	5,118,987	5,033,419			5,118,987	5,033,419
Other Obligations (Insurance & Leave Policies)	668,693	660,081	134,547	139,023	803,240	799,104
<b>Total Long Term Debt</b>	<b>34,910,863</b>	<b>35,284,002</b>	<b>14,288,492</b>	<b>6,247,214</b>	<b>49,199,355</b>	<b>41,531,216</b>

The City of Covington's total debt increased by \$7,668,139 or (15.6%) during the current fiscal year. This increase was driven by the VRA Water Project and a projected increase in landfill closure/post closure liability.

The *Component Unit School Board* has long-term "Other Obligations" related to leave and insurance in the amount of \$584,194 as of June 30, 2013. This obligation is an overall decrease of \$8,708 compared to the previous fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of the average full valuation. The current debt limitation for the City of Covington is \$27,372,130 which is significantly in excess of the City of Covington's outstanding general obligation debt.

### **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 2013-2014 Fiscal Year Budget:

- The unemployment rate for the City of Covington is currently 8.9 percent, which is a decrease from a rate of 9.8 percent on June 30, 2012. While the unemployment rate has decreased, it is not expected to reach the pre-recession level for several years
- A \$2.00 monthly increase in water rates beginning July 1, 2013 anticipating current and future expenditures due to system infrastructure improvements, increased costs, and regulatory requirements.
- Although considered, there were no tax rate increases to generate revenue for the 2013-2014 budget.
- Soft Billing for Rescue Squad Services (a new revenue source) was enacted by City Council and anticipated Revenue of \$300,000 is expected in budget year 2013-2014.
- Utility, Insurance, and all fee program costs were reviewed and budgets aligned closer to actual cost based on historical data.
- Health Insurance Costs to the city did not increase for the 2013-2014 budget year
- Unspent school fund revenues were identified and built in to 2013-2014 budget unlike previous years going back and doing a re-appropriation to the new budget.
- For the first time since schools were built, a full contribution was budgeted to the Capital Reserve Debt fund in the amount of \$860,019. Past allocations to the budget did not meet the required level of funding that was identified in 2007.
- The 2013-2014 General Fund Budget is built on \$16,406,786 of both revenues and expenditures. No unassigned fund balance was taken from 2012-2013 dollars to balance the 2013-2014 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. The period in question began calendar year 2011, and includes both 2012 and 2013 also. Subsequent to year end, City Council agreed to a refund proposal for machinery and tools taxes with Mead Westvaco in the amount of \$1,314,487, including \$148,859 in interest. This amount

will be paid in three installments during fiscal year 2014. This refund created a restatement to the fiscal year 2012 general fund balance of \$645,925, reduced fiscal year 2013 revenue by \$433,820, and will reduce 2014 revenue by \$234,742. As noted, in Note 20 of the financial statements, Mead Westvaco is seeking an additional refund which the City plans to contest.

There is also a performance agreement incentive in place that too is being impacted by a change in the assessment and taxation criteria (SCC) that had not been in place in the past. What was once Machinery and Tools environment has now changed to a State Corporation Commission process and Real Estate Tax Rate Factor driven calculation along with depreciation factored also. The "grant" document indicates Alleghany Highlands Economic Corporation involvement as well as the local government and taxpayer.

As of June 30, 2013, the City of Covington owned 1176 shares of Met Life Trust stock that originated with a New England Company prior to the inception of VRS in 1977. The city has retained the stock through the years and as of June 30, 2013, the value was \$47,733.84. The city will take action during FY 2013-2014 to sell this stock and assure compliance with local government investment requirements.

### **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, 2013

	Primary Government			Component
	Governmental	Business-type		Unit
	Activities	Activities	Total	School Board
ASSETS				
Cash and cash equivalents	\$ 5,533,336	\$ 2,849,504	\$ 8,382,840	\$ 646,440
Cash in custody of others	-	-	-	104,335
Investments	47,734	-	47,734	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,739,491	-	2,739,491	-
Other local taxes receivable	123,199	-	123,199	-
Accounts receivable	54,064	441,371	495,435	29,146
Due from component unit	260,355	-	260,355	-
Intergovernmental receivable	825,384	64,511	889,895	317,993
Inventories	-	-	-	11,069
Prepaid items	-	-	-	146,504
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	1,012,605	707,679	1,720,284	-
Investments	-	5,664,553	5,664,553	-
Capital assets not being depreciated:				
Land	1,955,871	-	1,955,871	89,663
Construction in progress	41,978	4,077,320	4,119,298	-
Capital assets, net of accumulated depreciation:				
Buildings and improvements	23,486,753	-	23,486,753	1,036,190
Machinery, equipment, and vehicles	2,374,017	-	2,374,017	198,151
Infrastructure	689,795	12,468,552	13,158,347	-
Total Assets	\$ 39,144,582	\$ 26,273,490	\$ 65,418,072	\$ 2,579,491
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	\$ 58,087	\$ 8,830	\$ 66,917	\$ -
LIABILITIES				
Accounts payable	\$ 174,596	\$ 552,262	\$ 726,858	\$ 13,637
Accrued liabilities	149,937	28,915	178,852	785,334
Tax refunds payable	1,079,745	-	1,079,745	-
Retainage payable	-	107,250	107,250	-
Customers' deposits	-	61,180	61,180	-
Accrued interest payable	377,955	50,028	427,983	-
Due to primary government	-	-	-	260,355
Deposits held in escrow	12,248	-	12,248	-
Noncurrent liabilities:				
Due within one year	582,824	680,413	1,263,237	288,896
Due in more than one year	34,328,039	13,608,079	47,936,118	296,298
Total Liabilities	\$ 36,705,344	\$ 15,088,127	\$ 51,793,471	\$ 1,644,520
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	\$ 2,383,679	\$ -	\$ 2,383,679	\$ -
NET POSITION				
Net investment in capital assets	\$ 495,923	\$ 7,832,605	\$ 8,328,528	\$ 1,324,004
Restricted for:				
Information technology grants	320,255	-	320,255	-
Transportation enhancement grants	7,999	-	7,999	-
Debt Service	-	288,506	288,506	-
Unrestricted (deficit)	(710,531)	3,073,082	2,362,551	(389,033)
Total Net Position	\$ 113,646	\$ 11,194,193	\$ 11,307,839	\$ 934,971

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, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating		Governmental Activities	Business-type Activities	Total	Component Unit
			Grants and Contributions	Capital Grants and Contributions				
<b>PRIMARY GOVERNMENT:</b>								
Governmental activities:								
General government administration	\$ 1,401,609	\$ 317	\$ 166,082	\$ -	\$ (1,235,210)	\$ (1,235,210)	\$ (1,235,210)	
Judicial administration	124,651	-	-	-	(124,651)	(124,651)	(124,651)	
Public safety	2,889,561	121,404	582,328	105,641	(2,080,188)	(2,080,188)	(2,080,188)	
Public works	2,837,163	691,769	941,786	-	(1,203,608)	(1,203,608)	(1,203,608)	
Health and welfare	1,351,070	-	777,117	-	(573,953)	(573,953)	(573,953)	
Education	4,292,522	-	-	-	(4,292,522)	(4,292,522)	(4,292,522)	
Parks, recreation, and cultural	1,400,941	76,770	-	-	(1,324,171)	(1,324,171)	(1,324,171)	
Community development	99,723	967	-	-	(98,756)	(98,756)	(98,756)	
Interest on long-term debt	1,003,044	-	-	-	(1,003,044)	(1,003,044)	(1,003,044)	
Total governmental activities	\$ 15,400,284	\$ 891,227	\$ 2,467,313	\$ 105,641	\$ (11,936,103)	\$ (11,936,103)	\$ (11,936,103)	
Business-type activities:								
Water	\$ 1,304,304	\$ 1,653,412	\$ -	\$ 700	\$ -	\$ 349,808	\$ 349,808	
Sewer	1,206,873	1,500,751	-	362,541	-	656,419	656,419	
Total business-type activities	\$ 2,511,177	\$ 3,154,163	\$ -	\$ 363,241	\$ 1,006,227	\$ 1,006,227	\$ 1,006,227	
Total primary government	\$ 17,911,461	\$ 4,045,390	\$ 2,467,313	\$ 468,882	\$ (11,936,103)	\$ 1,006,227	\$ (10,929,876)	
<b>COMPONENT UNIT:</b>								
School Board	\$ 11,221,403	\$ 118,137	\$ 6,329,964	\$ -	\$ -	\$ -	\$ -	\$ (4,773,302)
General revenues:								
General property taxes					\$ 6,763,991	\$ -	\$ 6,763,991	\$ -
Other local taxes:								
Local sales and use taxes					1,477,702	-	1,477,702	-
Consumers' utility taxes					432,791	-	432,791	-
Consumption taxes					25,762	-	25,762	-
Business license taxes					614,870	-	614,870	-
Motor vehicle licenses					140,159	-	140,159	-
Bank stock taxes					147,294	-	147,294	-
Recordation taxes					40,693	-	40,693	-
Hotel and motel room taxes					15,647	-	15,647	-
Restaurant food taxes					963,371	-	963,371	-
Tobacco taxes					120,879	-	120,879	-
Unrestricted revenues from use of money and property					79,252	830	80,082	1,587
Miscellaneous					3,436	11,054	14,490	262,816
Payments from the City of Covington					-	-	-	3,704,092
Grants and contributions not restricted to specific programs					893,226	-	893,226	-
Transfers					364,343	(364,343)	-	-
Total general revenues and transfers					\$ 12,083,416	\$ (352,459)	\$ 11,730,957	\$ 3,968,495
Change in net position					\$ 147,313	\$ 653,768	\$ 801,081	\$ (804,807)
Net position - beginning, as restated					(33,667)	10,540,425	10,506,758	1,739,778
Net position - ending					\$ 113,646	\$ 11,194,193	\$ 11,307,839	\$ 934,971

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



City of Covington, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2013

	<u>General</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,389,947	\$ 3,143,389	\$ -	\$ 5,533,336
Investments	47,734	-	-	47,734
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,739,491	-	-	2,739,491
Other local taxes receivables	123,199	-	-	123,199
Accounts receivable	54,064	-	-	54,064
Due from component unit	260,355	-	-	260,355
Intergovernmental receivable	825,384	-	-	825,384
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	-	-	1,012,605	1,012,605
Total assets	<u>\$ 6,440,174</u>	<u>\$ 3,143,389</u>	<u>\$ 1,012,605</u>	<u>\$ 10,596,168</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 174,596	\$ -	\$ -	\$ 174,596
Accrued liabilities	144,461	-	-	144,461
Tax refunds payable	1,079,745	-	-	1,079,745
Deposits held in escrow	12,248	-	-	12,248
Total liabilities	<u>\$ 1,411,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,411,050</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	\$ 2,732,719	\$ -	\$ -	\$ 2,732,719
	<u>\$ 2,732,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,732,719</u>
<b>FUND BALANCES</b>				
Restricted:				
School construction	\$ -	\$ -	\$ 1,012,605	\$ 1,012,605
Transportation enhancement grants	7,999	-	-	7,999
Information technology grants	320,255	-	-	320,255
Committed:				
Debt service funds	-	3,143,389	-	3,143,389
Unassigned	1,968,151	-	-	1,968,151
Total fund balances	<u>\$ 2,296,405</u>	<u>\$ 3,143,389</u>	<u>\$ 1,012,605</u>	<u>\$ 6,452,399</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,440,174</u>	<u>\$ 3,143,389</u>	<u>\$ 1,012,605</u>	<u>\$ 10,596,168</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, 2013

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 6,452,399
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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	23,486,753	
Machinery, equipment, and vehicles	2,374,017	
Infrastructure	689,795	
Construction in progress	41,978	28,548,414

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	349,040
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Internal service funds are used by management to charge the costs of certain activities such as insurance and telecommunications to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

(5,476)

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	58,087
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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	\$ (17,906,100)	
Lease revenue bonds	(11,290,000)	
Capital lease	(166,161)	
Unamortized discount	239,078	
Compensated absences	(366,605)	
Landfill accrued closure/post-closure costs	(5,118,987)	
Accrued interest payable	(377,955)	
Net OPEB obligation	(302,088)	(35,288,818)

Net position of governmental activities	\$ 113,646
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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, 2013

	General	School Debt Service Reserve	School Construction	Total
<b>REVENUES</b>				
General property taxes	\$ 6,734,155	\$ -	\$ -	\$ 6,734,155
Other local taxes	3,979,168	-	-	3,979,168
Permits, privilege fees, and regulatory licenses	14,758	-	-	14,758
Fines and forfeitures	7,613	-	-	7,613
Revenue from the use of money and property	52,318	26,772	162	79,252
Charges for services	868,856	-	-	868,856
Miscellaneous	3,436	-	-	3,436
Recovered costs	62,246	-	-	62,246
Intergovernmental revenues:				
Covington City School Board	-	300,000	-	300,000
Commonwealth	3,264,852	-	-	3,264,852
Federal	201,328	-	-	201,328
Total revenues	\$ 15,188,730	\$ 326,772	\$ 162	\$ 15,515,664
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,366,664	\$ -	\$ -	\$ 1,366,664
Judicial administration	124,651	-	-	124,651
Public safety	3,283,642	-	-	3,283,642
Public works	2,469,270	-	-	2,469,270
Health and welfare	1,377,241	-	-	1,377,241
Education	4,005,592	-	-	4,005,592
Parks, recreation, and cultural	1,269,112	-	-	1,269,112
Community development	99,723	-	-	99,723
Debt service:				
Principal retirement	473,155	-	-	473,155
Interest and other fiscal charges	971,983	-	-	971,983
Total expenditures	\$ 15,441,033	\$ -	\$ -	\$ 15,441,033
Excess (deficiency) of revenues over (under) expenditures	\$ (252,303)	\$ 326,772	\$ 162	\$ 74,631
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 364,343	\$ 247,840	\$ -	\$ 612,183
Transfers out	(251,113)	-	-	(251,113)
Total other financing sources (uses)	\$ 113,230	\$ 247,840	\$ -	\$ 361,070
Net change in fund balances	\$ (139,073)	\$ 574,612	\$ 162	\$ 435,701
Fund balances - beginning, as restated	2,435,478	2,568,777	1,012,443	6,016,698
Fund balances - ending	\$ 2,296,405	\$ 3,143,389	\$ 1,012,605	\$ 6,452,399

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, 2013

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

Net change in fund balances - total governmental funds	\$	435,701
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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	\$	634,917	
Depreciation expense		<u>(1,298,187)</u>	(663,270)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		29,836
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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.

(Increase) decrease in landfill closure and post-closure monitoring costs	\$	(85,568)	
Principal Payments:			
General obligation bonds		329,486	
Lease revenue bond		50,000	
Capital lease		<u>93,669</u>	387,587

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	\$	18,550	
(Increase) decrease in net OPEB obligation		(27,162)	
Amortization of bond discount		(5,836)	
Amortization of deferred amount on refundings		(27,530)	
(Increase) decrease in accrued interest payable		<u>2,305</u>	(39,673)

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.

Change in net position of governmental activities	\$	<u>147,313</u>
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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, 2013

	Enterprise Funds			Motor Vehicle
	Water	Sewer	Total	Internal Service
	<u>Fund</u>	<u>Fund</u>		<u>Fund</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,716,802	\$ 1,132,702	\$ 2,849,504	\$ -
Accounts receivable, net of allowance for uncollectibles	272,497	168,874	441,371	-
Due from other governmental units	-	64,511	64,511	-
Restricted current assets:				
Cash and cash equivalents	391,010	316,669	707,679	-
Investments	5,664,553	-	5,664,553	-
Total current assets	<u>\$ 8,044,862</u>	<u>\$ 1,682,756</u>	<u>\$ 9,727,618</u>	<u>\$ -</u>
Noncurrent assets:				
Capital assets:				
Utility plant in service	\$ 8,195,544	\$ 13,935,824	\$ 22,131,368	\$ -
Less: accumulated depreciation	(5,060,509)	(4,602,307)	(9,662,816)	-
Construction in progress	115,985	3,961,335	4,077,320	-
Total capital assets	<u>\$ 3,251,020</u>	<u>\$ 13,294,852</u>	<u>\$ 16,545,872</u>	<u>\$ -</u>
Buildings and improvements	<u>\$ 3,251,020</u>	<u>\$ 13,294,852</u>	<u>\$ 16,545,872</u>	<u>\$ -</u>
Total assets	<u>\$ 11,295,882</u>	<u>\$ 14,977,608</u>	<u>\$ 26,273,490</u>	<u>\$ -</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred amount on refunding	<u>\$ 3,532</u>	<u>\$ 5,298</u>	<u>\$ 8,830</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 68,814	\$ 483,448	\$ 552,262	\$ -
Wages payable	15,392	13,523	28,915	5,476
Customers' deposits	33,017	28,163	61,180	-
Accrued interest payable	48,333	1,695	50,028	-
Retainage payable	-	107,250	107,250	-
Compensated absences - current portion	27,946	23,530	51,476	-
Bonds payable - current portion	168,353	460,584	628,937	-
Total current liabilities	<u>\$ 361,855</u>	<u>\$ 1,118,193</u>	<u>\$ 1,480,048</u>	<u>\$ 5,476</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 6,088,260	\$ 7,436,748	\$ 13,525,008	\$ -
Net OPEB obligation	36,401	29,511	65,912	-
Compensated absences	9,315	7,844	17,159	-
Total noncurrent liabilities	<u>\$ 6,133,976</u>	<u>\$ 7,474,103</u>	<u>\$ 13,608,079</u>	<u>\$ -</u>
Total liabilities	<u>\$ 6,495,831</u>	<u>\$ 8,592,296</u>	<u>\$ 15,088,127</u>	<u>\$ 5,476</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 3,020,485	\$ 4,812,120	\$ 7,832,605	\$ -
Restricted for debt service and bond covenants	-	288,506	288,506	-
Unrestricted	<u>1,783,098</u>	<u>1,289,984</u>	<u>3,073,082</u>	<u>-</u>
Total net position	<u>\$ 4,803,583</u>	<u>\$ 6,390,610</u>	<u>\$ 11,194,193</u>	<u>\$ (5,476)</u>

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, 2013

	Enterprise Funds			Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund	Total	Fund
<b>OPERATING REVENUES</b>				
Charges for services:				
Water revenues	\$ 1,641,703	\$ -	\$ 1,641,703	\$ -
Sewer revenues	-	1,484,525	1,484,525	-
Vehicle maintenance	-	-	-	214,133
Penalties	11,709	16,226	27,935	-
Miscellaneous	5,398	5,656	11,054	-
Total operating revenues	\$ 1,658,810	\$ 1,506,407	\$ 3,165,217	\$ 214,133
<b>OPERATING EXPENSES</b>				
Salaries and wages	\$ 441,522	\$ 352,587	\$ 794,109	\$ 136,544
Fringes	206,720	180,199	386,919	65,370
Contracted services	65,920	133,679	199,599	700
Other:				
Electric and heating	137,464	80,732	218,196	-
Postal and telecommunications	11,854	9,509	21,363	-
Insurance	22,855	21,895	44,750	-
Supplies	153,526	80,522	234,048	-
Travel	1,739	1,170	2,909	-
Miscellaneous	3,157	4,351	7,508	17,660
Purchase of equipment	185	-	185	-
Lease/rent of equipment	1,139	285	1,424	-
OPEB expense	3,303	2,635	5,938	-
Depreciation	152,324	325,596	477,920	-
Total operating expenses	\$ 1,201,708	\$ 1,193,160	\$ 2,394,868	\$ 220,274
Operating income (loss)	\$ 457,102	\$ 313,247	\$ 770,349	\$ (6,141)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Connection fees	\$ 700	\$ 700	\$ 1,400	\$ -
Interest income	-	830	830	-
Interest expense	(102,596)	(13,713)	(116,309)	-
Total nonoperating revenues (expenses)	\$ (101,896)	\$ (12,183)	\$ (114,079)	\$ -
Income (loss) before contributions and transfers	\$ 355,206	\$ 301,064	\$ 656,270	\$ (6,141)
Capital contributions and construction grants	\$ -	\$ 361,841	\$ 361,841	\$ -
Transfers in	-	129,025	129,025	3,273
Transfers out	(280,264)	(213,104)	(493,368)	-
Change in net position	\$ 74,942	\$ 578,826	\$ 653,768	\$ (2,868)
Net position - beginning, as restated	4,728,641	5,811,784	10,540,425	(2,608)
Net position - ending	\$ 4,803,583	\$ 6,390,610	\$ 11,194,193	\$ (5,476)

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, 2013

	Enterprise Funds			Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund	Total	Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 1,639,219	\$ 1,509,575	\$ 3,148,794	\$ 214,133
Payments to suppliers	(397,934)	(332,143)	(730,077)	(18,364)
Payments to employees	(656,009)	(519,743)	(1,175,752)	(199,042)
Net cash provided by (used for) operating activities	\$ 585,276	\$ 657,689	\$ 1,242,965	\$ (3,273)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	\$ (280,264)	\$ (213,104)	\$ (493,368)	\$ -
Transfers from other funds	-	129,025	129,025	3,273
Net cash provided by (used for) noncapital financing activities	\$ (280,264)	\$ (84,079)	\$ (364,343)	\$ 3,273
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Additions to utility plant	\$ (13,718)	\$ (2,876,391)	\$ (2,890,109)	\$ -
Principal payments on bonds	(135,504)	(452,917)	(588,421)	-
Capital grants	-	374,164	374,164	-
Proceeds from indebtedness	6,115,990	2,518,185	8,634,175	-
Interest payments	(100,154)	(10,049)	(110,203)	-
Connection fees	700	700	1,400	-
Net cash provided by (used for) capital and related financing activities	\$ 5,867,314	\$ (446,308)	\$ 5,421,006	\$ -
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	\$ -	\$ 830	\$ 830	\$ -
Net increase (decrease) in cash and cash equivalents	\$ 6,172,326	\$ 128,132	\$ 6,300,458	\$ -
Cash and cash equivalents - beginning	1,600,039	1,321,239	2,921,278	-
Cash and cash equivalents - ending	\$ 7,772,365	\$ 1,449,371	\$ 9,221,736	\$ -
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 457,102	\$ 313,247	\$ 770,349	\$ (6,141)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 152,324	\$ 325,596	\$ 477,920	\$ -
OPEB expense	3,303	2,635	5,938	-
(Increase) decrease in accounts receivable	(23,490)	361	(23,129)	-
Increase (decrease) in customer deposits	3,899	2,807	6,706	-
Increase (decrease) in accounts payable	(95)	-	(95)	(4)
Increase (decrease) in wages payable	8,080	7,610	15,690	2,872
Increase (decrease) in compensated absences	(15,847)	5,433	(10,414)	-
Total adjustments	\$ 128,174	\$ 344,442	\$ 472,616	\$ 2,868
Net cash provided by (used for) operating activities	\$ 585,276	\$ 657,689	\$ 1,242,965	\$ (3,273)

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

CITY OF COVINGTON, VIRGINIA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

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**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.

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 2013 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, 2013

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**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.

**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 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, 2013

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**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 units, 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, 2013

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**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 non-current 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 5<sup>th</sup> and June 5<sup>th</sup>. Personal property taxes are due and collectible annually on December 5<sup>th</sup> and June 5<sup>th</sup>. 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 \$91,489 at June 30, 2013 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, 2013

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**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, 2013

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**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, 2013

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**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, 2013

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**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.

13. Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board

The City implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and outflows of resources. The requirement of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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

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

14. Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board

The City implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The beginning balance reported in the financial statements was restated by \$426,889 and \$44,645 for the governmental activities and business-type activities, respectively, as shown in Note 21.

**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.
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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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

A. Budgetary Information (Continued)

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, 2013, there were no departments that had expenditures in excess of appropriations.

C. Deficit Fund Equity

At June 30, 2013, 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.

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, 2013 and June 30, 2012, the City had 1,176 shares of MetLife Trust stock valued at a \$40.59 and \$32.05 per share for a total value of \$47,734 and \$37,691, respectively.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**Note 3 - Deposits and Investments: (Continued)**

Investments (Continued)

The City's rated debt investments as of June 30, 2013 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)	\$ 5,664,553

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.

**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	\$ 244,158	\$ -	\$ -
State sales tax	-	-	148,291
Non-categorical aid	326,980	-	-
Categorical aid - shared expenses	13,270	-	-
Categorical aid - Comprehensive Services Act	204,206	-	-
Categorical aid - VPA	8,933	-	-
Categorical aid - other	9,437	64,511	-
<u>Federal Government:</u>			
Categorical aid - VPA	8,008	-	-
Categorical aid - other	10,392	-	169,702
Totals	\$ 825,384	\$ 64,511	\$ 317,993

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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**Note 5 - Interfund Transfers:**

Interfund transfers for the year ended June 30, 2013, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 364,343	\$ 251,113
Water Fund	-	280,264
Sewer Fund	129,025	213,104
Motor Vehicle Internal Serv. Fund	3,273	-
School Debt Reserve Fund	247,840	-
Total	<u>\$ 744,481</u>	<u>\$ 744,481</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.

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013Note 6 - Long-Term Obligations:Primary Government - Governmental Activity Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2013:

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
General obligation bonds	\$ 18,235,586	\$ -	\$ (329,486)	\$ 17,906,100
Deferred amounts:				
Discounts	(244,914)	-	5,836	(239,078)
Lease revenue bond	11,340,000	-	(50,000)	11,290,000
Capital lease (note 7)	259,830	-	(93,669)	166,161
Landfill closure/ post-closure liability	5,033,419	85,568	-	5,118,987
Compensated absences	385,155	270,316	(288,866)	366,605
Net OPEB obligation	274,926	49,646	(22,484)	302,088
Total	<u>\$ 35,284,002</u>	<u>\$ 405,530</u>	<u>\$ (778,669)</u>	<u>\$ 34,910,863</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
2014	\$ 133,000	\$ 436,063	\$ 100,000	\$ 514,037
2015	137,000	430,849	100,000	510,038
2016	146,000	425,479	100,000	506,037
2017	15,425,100	364,241	100,000	502,038
2018	155,000	80,948	100,000	498,038
2019-2023	864,000	308,974	500,000	2,429,750
2024-2028	1,046,000	126,538	505,000	2,320,634
2029-2033	-	-	3,635,000	1,945,853
2034-2038	-	-	5,125,000	829,609
2039	-	-	1,025,000	23,704
Totals	<u>\$ 17,906,100</u>	<u>\$ 2,173,092</u>	<u>\$ 11,290,000</u>	<u>\$ 10,079,738</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**Note 6 - Long-Term Obligations: (Continued)**

Primary Government - Governmental Activity 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	\$ 2,627,000	\$ 133,000
GO Refunding BAN	3.38%	9/27/2011	2017	\$333,084 i+	15,279,100	15,279,100	-
Total General Obligation Bonds						<u>\$ 17,906,100</u>	<u>\$ 133,000</u>
Lease Revenue Bond:							
Lease Revenue Bond	4.00%-4.50%	12/1/2007	2039	\$100,000 a+	\$ 11,490,000	\$ 11,290,000	\$ 100,000
Deferred Amount:							
Unamortized Discount					\$ (274,460)	\$ (239,078)	\$ (6,566)
Other Obligations:							
Capital Lease (Note 7)	4.04%	3/16/2005	2015	\$88,149 a	\$ 731,128	\$ 166,161	\$ 81,436
Compensated Absences						366,605	274,954
Net OPEB Obligation						302,088	-
Landfill Closure/Post-closure Monitoring						5,118,987	-
Total Other Obligations						<u>\$ 5,953,841</u>	<u>\$ 356,390</u>
Total Long-Term Obligations						<u>\$ 34,910,863</u>	<u>\$ 582,824</u>

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

(i+) - annual interest installments shown; the lump sum principal portion is due in 2017

(a) - annual installment including principal and interest

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**Note 6 - Long-Term Obligations: (Continued)**Primary Government - Enterprise Funds Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2013:

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
Revenue bonds	\$ 6,108,191	\$ 7,913,185	\$ (588,421)	\$ 13,432,955
Deferred amount:				
Premium	-	720,990	-	720,990
Net OPEB obligation	59,974	10,854	(4,916)	65,912
Compensated absences	79,049	-	(10,414)	68,635
Total	\$ 6,247,214	\$ 8,645,029	\$ (603,751)	\$ 14,288,492

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
2014	\$ 140,623	\$ 213,051	\$ 460,584	\$ 3,390
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	-
2019-2023	790,000	992,238	2,875,000	-
2024-2028	980,000	800,103	1,429,997	-
2029-2033	1,230,000	552,599	994,251	-
2034-2038	1,525,000	250,241	-	-
2039	345,000	8,091	-	-
Totals	\$ 5,535,623	\$ 3,715,967	\$ 7,897,332	\$ 3,390

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**Note 6 - Long-Term Obligation: (Continued)**

Primary Government - Enterprise Funds 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	3.22%	8/18/2004	2014	\$351,207 a+	\$ 4,665,377	\$ 351,207	\$ 351,207
Revenue Bond	0.00%	12/1/2010	2031	\$250,000 a	5,000,000	4,744,251	250,000
Revenue Bond	0.00%	5/10/2012	2032	\$162,500-325,000 a	6,500,000	2,942,497	-
Revenue Bond	2.04-4.83%	4/4/2013	2039	\$125,000-345,000 a+	5,395,000	5,395,000	-
Total Revenue Bonds						<u>\$ 13,432,955</u>	<u>\$ 601,207</u>
Deferred Amount:							
Unamortized Premium					\$ 720,990	<u>\$ 720,990</u>	<u>\$ 27,730</u>
Other Obligations:							
Compensated Absences						\$ 68,635	\$ 51,476
Net OPEB Obligation						<u>65,912</u>	<u>-</u>
Total Other Obligations						<u>\$ 134,547</u>	<u>\$ 51,476</u>
Total Long-Term Obligations						<u>\$ 14,288,492</u>	<u>\$ 680,413</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:

	Fire Truck
Machinery and equipment	\$ 731,128
Less: Accumulated depreciation	<u>(605,935)</u>
Net Capital Asset	<u>\$ 125,193</u>



CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**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, 2013, were as follows:

Fiscal Year Ended	Fire Truck
2014	\$ 88,149
2015	88,149
Total minimum lease payments	\$ 176,298
Less: amount representing interest	(10,137)
Present value of minimum lease payments	\$ 166,161

**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, 2013:

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
Compensated absences	\$ 405,202	\$ 283,894	\$ (303,902)	\$ 385,194
Net OPEB obligation	188,700	66,900	(55,600)	200,000
	\$ 593,902	\$ 350,794	\$ (359,502)	\$ 585,194

Details of long-term indebtedness:

	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:		
Compensated absences	\$ 385,194	\$ 288,896
Net OPEB obligation	200,000	-
Total Long-term Obligations	\$ 585,194	\$ 288,896

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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**Note 9 - Employee Retirement System and Defined Benefit Pension Plan:**

**A. Plan Description**

Name of Plan: Virginia Retirement System (VRS)  
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit 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. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the 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.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced benefit retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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**Note 9 - Employee Retirement System and Defined Benefit Pension Plan: (Continued)**

A. Plan Description (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

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/2012-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government:

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 of Covington, Virginia is 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 of Covington, Virginia's contribution rate for the fiscal year ended 2013 was 15.83% of annual covered payroll.

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

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 Covington City School Board is 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 Covington City School Board's contribution rate for the fiscal year ended 2013 was 15.70% of annual covered payroll.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**Note 9 - Employee Retirement System and Defined Benefit Pension Plan: (Continued)**

C. Annual Pension Cost

For fiscal year 2013, the City of Covington, Virginia's annual pension cost of \$738,571 and \$101,105 was equal to the City of Covington, Virginia's required and actual contributions for the City and the School Board Non-Professionals, respectively.

Three-Year Trend Information

	Fiscal Year Ended	Annual Pension Cost (APC) <sup>1</sup>	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2011	\$ 612,145	100.00%	\$ -
	6/30/2012	612,967	100.00%	-
	6/30/2013	738,571	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2011	\$ 81,751	100.00%	\$ -
	6/30/2012	83,959	100.00%	-
	6/30/2013	101,105	100.00%	-

<sup>1</sup> Employer & employee portions

The FY 2013 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 of Covington, Virginia and Covington City 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 of Covington, Virginia and Covington City School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the unfunded actuarial accrued liability (UAAL) was 30 years.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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**Note 9 - Employee Retirement System and Defined Benefit Pension Plan: (Continued)**

**D. Funded Status and Funding Progress**

Primary Government:

As of June 30, 2012, the most recent actuarial valuation date, the plan was 66.27% funded. The actuarial accrued liability for benefits was \$22,801,991, and the actuarial value of assets was \$15,111,912, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,690,079. The covered payroll (annual payroll of active employees covered by the plan) was \$3,435,559, and ratio of the UAAL to the covered payroll was 223.84%.

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

As of June 30, 2012, the most recent actuarial valuation date, the plan was 65.92% funded. The actuarial accrued liability for benefits was \$2,893,732, and the actuarial value of assets was \$1,907,499, resulting in an unfunded actuarial accrued liability (UAAL) of \$986,233. The covered payroll (annual payroll of active employees covered by the plan) was \$517,551, and ratio of the UAAL to the covered payroll was 190.56%.

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.

**E. Discretely Presented Component Unit School Board**

*Professional Employees:*

Plan Description:

The Covington City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The system issues a publicly available comprehensive annual financial report that includes 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/2012-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, 2013

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**Note 9 - Employee Retirement System and Defined Benefit Pension Plans: (Continued)**

E. Discretely Presented Component Unit School Board (Continued)

*Professional Employees: (Continued)*

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 being 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 School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The School Board's contribution to the statewide cost sharing pool for professional employees, not including the 5.00% member contribution, was \$598,100, \$339,388, and \$153,458 for the fiscal years ended 2013, 2012, and 2011, respectively. Required employer contributions represented 11.66%, 6.33%, and 3.93%, of covered payroll for the fiscal years ended 2013, 2012, and 2011, respectively.

**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.

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 2013, the City and School Board contributed \$27,400 and \$55,600, 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.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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

**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	\$ 50,056	\$ 6,088	\$ 4,856	\$ 61,000	\$ 67,300
Interest on net OPEB obligation	10,996	1,337	1,067	13,400	7,500
Adjustment to annual required contribution	(11,406)	(1,387)	(1,107)	(13,900)	(7,900)
Annual OPEB cost (expense)	49,646	6,038	4,816	60,500	66,900
Contributions made	(22,484)	(2,735)	(2,181)	(27,400)	(55,600)
Increase in net OPEB obligation	27,162	3,303	2,635	33,100	11,300
Net OPEB obligation - beginning of year	274,926	33,098	26,876	334,900	188,700
Net OPEB obligation - end of year	\$ 302,088	\$ 36,401	\$ 29,511	\$ 368,000	\$ 200,000

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 2013 and two preceding years were as follows:

Entity	Fiscal Year Ended	Annual OPEB Cost	Percentage of	Net OPEB Obligation
			Annual OPEB Cost Contributed	
City	6/30/2013	60,500	45.29%	368,000
City	6/30/2012	58,300	40.31%	334,900
City	6/30/2011	102,500	18.34%	300,100
School Board	6/30/2013	66,900	83.11%	200,000
School Board	6/30/2012	75,000	84.93%	188,700
School Board	6/30/2011	73,000	64.79%	177,400

**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 20.4%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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

D. Funded Status and Funding Progress (Continued)

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 15.60%.

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.

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, 2012, 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.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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

**A. Plan Description (Continued)**

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 10.

**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 2013 was 0.50% 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 2013 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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

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

Primary Government: (Continued)

For 2013, the City's contribution of \$16,794 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 2013 and the two preceding years are as follows:

	<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
Primary Government:				
City	6/30/2011	\$ 17,312	100.00%	\$ -
	6/30/2012	17,335	100.00%	-
	6/30/2013	16,794	100.00%	-

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 2013, the School Board's contribution of \$4,005 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 2013 and the two preceding years are as follows:

	<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
Discretely Presented Component Unit				
School Board	6/30/2011	\$ 3,990	100.00%	\$ -
	6/30/2012	4,098	100.00%	-
	6/30/2013	4,005	100.00%	-

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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

**D. Funded Status and Funding Progress**

Primary Government:

The funded status of the plan as of June 30, 2012, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	305,720
Actuarial value of plan assets	\$	84,631
Unfunded actuarial accrued liability (UAAL)	\$	221,089
Funded ratio (actuarial value of plan assets/AAL)		27.68%
Covered payroll (active plan members)	\$	3,169,682
UAAL as a percentage of covered payroll		6.98%

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.

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

The funded status of the plan as of June 30, 2012, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	63,680
Actuarial value of plan assets	\$	12,615
Unfunded actuarial accrued liability (UAAL)	\$	51,065
Funded ratio (actuarial value of plan assets/AAL)		19.81%
Covered payroll (active plan members)	\$	517,551
UAAL as a percentage of covered payroll		9.87%

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, 2013

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**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.

**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.

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, 2012 was 29 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, 2012 was 29 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.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2013**

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

**F. Professional Employees - Discretely Presented Component Unit School Board**

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.

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, 2013 was \$56,937 and equaled the required contributions.

**Note 12 - Capital Assets:**

Capital asset activity for the year ended June 30, 2013 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	321,723	584,403	(864,148)	41,978
Total capital assets not being depreciated	\$ 2,277,594	\$ 584,403	\$ (864,148)	\$ 1,997,849
Capital assets, being depreciated:				
Buildings and improvements	\$ 29,976,925	\$ 182,548	\$ -	\$ 30,159,473
Infrastructure	1,029,812	-	-	1,029,812
Machinery and equipment	6,606,456	732,114	(64,612)	7,273,958
Total capital assets being depreciated	\$ 37,613,193	\$ 914,662	\$ (64,612)	\$ 38,463,243
Accumulated depreciation:				
Buildings and improvements	\$ (5,733,310)	\$ (939,410)	\$ -	\$ (6,672,720)
Infrastructure	(295,249)	(44,768)	-	(340,017)
Machinery and equipment	(4,650,544)	(314,009)	64,612	(4,899,941)
Total accumulated depreciation	\$ (10,679,103)	\$ (1,298,187)	\$ 64,612	\$ (11,912,678)
Total capital assets being depreciated, net	\$ 26,934,090	\$ (383,525)	\$ -	\$ 26,550,565
Governmental activities capital assets, net	\$ 29,211,684	\$ 200,878	\$ (864,148)	\$ 28,548,414

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**Note 12 - Capital Assets: (Continued)**

Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 6,721,179	\$ 3,330,109	\$ (5,973,968)	\$ 4,077,320
Capital assets, being depreciated:				
Infrastructure	\$ 16,113,895	\$ 6,017,473	\$ -	\$ 22,131,368
Accumulated depreciation:				
Infrastructure	\$ (9,184,896)	\$ (477,920)	\$ -	\$ (9,662,816)
Total capital assets being depreciated, net	\$ 6,928,999	\$ 5,539,553	\$ -	\$ 12,468,552
Business-type activities capital assets, net	\$ 13,650,178	\$ 8,869,662	\$ (5,973,968)	\$ 16,545,872

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

Governmental activities:	
General government administration	\$ 84,729
Public safety	192,375
Public works	306,193
Education	585,102
Parks, recreation, and cultural	129,788
Total depreciation expense-governmental activities	\$ 1,298,187
Business-type activities:	
Water and sewer funds	\$ 477,920
Total depreciation expense-Primary Government	\$ 1,776,107

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

**Note 12 - Capital Assets: (Continued)**

Discretely Presented Component Unit

Capital asset activity for the School Board for the year ended June 30, 2013 was as follows:

	Beginning Balance	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	974,450	30,573	(36,099)	968,924
Total capital assets being depreciated	\$ 4,162,910	\$ 30,573	\$ (36,099)	\$ 4,157,384
Accumulated depreciation:				
Buildings and improvements	\$ (1,537,059)	\$ (615,211)	\$ -	\$ (2,152,270)
Machinery and equipment	(706,572)	(100,300)	36,099	(770,773)
Total accumulated depreciation	\$ (2,243,631)	\$ (715,511)	\$ 36,099	\$ (2,923,043)
Total capital assets being depreciated, net	\$ 1,919,279	\$ (684,938)	\$ -	\$ 1,234,341
Governmental activities capital assets, net	\$ 2,008,942	\$ (684,938)	\$ -	\$ 1,324,004

**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.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2013**

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**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 &amp; Deposit Company of Maryland-Surety:</u>	
J.B. Broughman, City Manager	\$ 100,000
Eunice Dressler Wright, 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. \$5,118,987 is the total estimated closure and post-closure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2013. 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, 2013

**Note 17 - Unavailable Revenue:**

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>
Delinquent property taxes receivable-2nd half 2013	\$ 2,342,660
Personal property taxes relief	3,986
Prepaid taxes	37,033
Total unavailable revenue for governmental activities	\$ 2,383,679
Taxes receivable due prior to June 30, 2013, not collected within 60 days	\$ 349,040
Total unavailable revenue for governmental funds	<u>2,732,719</u>

**Note 18 - Construction Commitments:**

	Original Contract	Amount Paid As of 6/30/2013	Remaining Contract Amount	Accounts Payable	Retainage Payable
WWTP Upgrades	\$ 452,000	\$ -	\$ 452,000	\$ 68,784	\$ -
Sewer Separation Project	5,476,585	2,178,488	3,298,097	388,559	107,251
Total Contracts	<u>\$ 5,928,585</u>	<u>\$ 2,178,488</u>	<u>\$ 3,750,097</u>	<u>\$ 457,343</u>	<u>\$ 107,251</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 71.93% of the personal property taxes for a combined 57.40% of the total City's 2013 tax levy.

**Note 20 - Litigation:**

Mead Westvaco has 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 has agreed to refund the following amounts including interest for the following years: 2011 - \$525,319, 2012 - \$427,170, and 2013 - \$361,997. The total amount of \$1,314,486 was to be paid in total during fiscal year 2014 and \$1,079,745 was related to activity prior to June 30, 2013 and has been accrued as a liability at June 30, 2013. The financial statements have been restated by an effect of \$645,925 due to the refund settlement. During fiscal year 2013, tax revenue has been decreased by \$433,820 due to the refund settlement. In addition, the City has reduced the taxes receivable and deferred inflow of taxes in the amount of \$177,311 for the second half of the 2013 tax assessment refund. Additional refunds have been sought by Mead Westvaco in amounts ranging from \$600,000 to \$800,000 in relation to pollution control equipment. As of the date of the financial statements issuance, the City plans to fight these additional requested refunds. Therefore, no liability is determinable and has not been accrued on the City's financial statements.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013

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**Note 20 - Litigation: (Continued)**

As of June 30, 2013, 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:**

Due to the implementation of GASB Statement No. 65, bond issuance costs are to be expensed. Therefore, the City has restated the net position as demonstrated below.

General Fund:

Fund Balance as previously reported 6/30/12	\$ 3,081,403
Refund to Mead Westvaco (Note 20)	(645,925)
Fund Balance as restated 6/30/12	<u>\$ 2,435,478</u>

Governmental activities:

Net Position as previously reported 6/30/12	\$ 1,039,147
Refund to Mead Westvaco (Note 20)	(645,925)
Bond issuance costs	(426,889)
Net Position as restated 6/30/12	<u>\$ (33,667)</u>

Business type activities:

Net Position as previously reported 6/30/12	\$ 10,606,670
Bond issuance costs	(66,245)
Net Position as restated 6/30/12	<u>\$ 10,540,425</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, 2013

	<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>
<b>REVENUES</b>				
General property taxes	\$ 7,291,275	\$ 7,291,275	\$ 6,734,155	\$ (557,120)
Other local taxes	3,565,480	3,565,480	3,979,168	413,688
Permits, privilege fees, and regulatory licenses	27,152	27,152	14,758	(12,394)
Fines and forfeitures	18,000	18,000	7,613	(10,387)
Revenue from the use of money and property	34,200	34,200	52,318	18,118
Charges for services	1,024,550	1,024,550	868,856	(155,694)
Miscellaneous	18,753	18,753	3,436	(15,317)
Recovered costs	16,000	46,390	62,246	15,856
Intergovernmental revenues:				
Commonwealth	3,333,462	3,535,533	3,264,852	(270,681)
Federal	259,071	259,071	201,328	(57,743)
Total Revenues	\$ 15,587,943	\$ 15,820,404	\$ 15,188,730	\$ (631,674)
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,484,479	\$ 1,459,594	\$ 1,366,664	\$ 92,930
Judicial administration	127,299	127,299	124,651	2,648
Public safety	2,744,692	3,513,725	3,283,642	230,083
Public works	2,545,588	2,573,451	2,469,270	104,181
Health and welfare	1,762,817	1,762,817	1,377,241	385,576
Education	4,121,113	4,285,137	4,005,592	279,545
Parks, recreation, and cultural	1,249,584	1,267,740	1,269,112	(1,372)
Community development	77,414	101,500	99,723	1,777
Nondepartmental	133,430	65,080	-	65,080
Debt service:				
Principal retirement	477,289	477,289	473,155	4,134
Interest and other fiscal charges	973,198	973,198	971,983	1,215
Total Expenditures	\$ 15,696,903	\$ 16,606,830	\$ 15,441,033	\$ 1,165,797
Excess (deficiency) of revenues over (under) expenditures	\$ (108,960)	\$ (786,426)	\$ (252,303)	\$ 534,123
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 356,800	\$ 356,800	\$ 364,343	\$ 7,543
Transfers out	(247,840)	(247,840)	(251,113)	(3,273)
Total other financing sources (uses)	\$ 108,960	\$ 108,960	\$ 113,230	\$ 4,270
Net change in fund balances	\$ -	\$ (677,466)	\$ (139,073)	\$ 538,393
Fund balances - beginning, as restated	-	677,466	2,435,478	1,758,012
Fund balances - ending	\$ -	\$ -	\$ 2,296,405	\$ 2,296,405

## City of Covington, Virginia

Schedule of Pension and OPEB Funding Progress  
For the Year Ended June 30, 2013

## Primary Government: City Retirement Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
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%
June 30, 2010	15,020,138	21,158,463	6,138,325	70.99%	3,626,023	169.29%

## City Postemployment Healthcare Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual 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 Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
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%
June 30, 2010	71,809	302,607	230,798	23.73%	3,626,023	6.37%

## 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 Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
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%
June 30, 2010	2,081,183	2,703,721	622,538	76.97%	509,300	122.23%

## School Board Postemployment Healthcare Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual 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 Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
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%
June 30, 2010	12,225	61,835	49,610	19.77%	509,300	9.74%

\*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, 2013

	<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>
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 18,420	\$ 26,772	\$ 26,772	\$ -
Intergovernmental revenues:				
Covington City Schools	300,000	300,000	300,000	-
Total revenues	<u>\$ 318,420</u>	<u>\$ 326,772</u>	<u>\$ 326,772</u>	<u>\$ -</u>
<b>EXPENDITURES</b>				
Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 318,420</u>	<u>\$ 326,772</u>	<u>\$ 326,772</u>	<u>\$ -</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>\$ -</u>	<u>\$ 247,840</u>	<u>\$ 247,840</u>	<u>\$ -</u>
Net change in fund balances	<u>\$ 318,420</u>	<u>\$ 574,612</u>	<u>\$ 574,612</u>	<u>\$ -</u>
Fund balances - beginning	<u>2,419,800</u>	<u>2,568,777</u>	<u>2,568,777</u>	<u>-</u>
Fund balances - ending	<u><u>\$ 2,738,220</u></u>	<u><u>\$ 3,143,389</u></u>	<u><u>\$ 3,143,389</u></u>	<u><u>\$ -</u></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, 2013

	<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>
<b>REVENUES</b>				
Revenue from the use of money and property	\$ -	\$ 357	\$ 162	\$ (195)
Intergovernmental revenues:				
Commonwealth	-	-	-	-
Total revenues	\$ -	\$ 357	\$ 162	\$ (195)
<b>EXPENDITURES</b>				
Capital projects	\$ -	\$ -	\$ -	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ 357	\$ 162	\$ (195)
Net change in fund balances	\$ -	\$ 357	\$ 162	\$ (195)
Fund balances - beginning	-	1,012,444	1,012,443	(1)
Fund balances - ending	\$ -	\$ 1,012,801	\$ 1,012,605	\$ (196)



**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL  
BOARD**

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**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, 2013

	School Operating Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 646,440
Cash in custody of others	104,335
Receivables (net of allowance for uncollectibles):	
Accounts receivable	29,146
Due from other governmental units	317,993
Inventories	11,069
Prepaid items	146,504
Total assets	<u>\$ 1,255,487</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 13,637
Accrued liabilities	785,334
Due to primary government	260,355
Total liabilities	<u>\$ 1,059,326</u>
<b>FUND BALANCES</b>	
Nonspendable:	
Prepaid items	\$ 146,504
Inventory	11,069
Restricted:	
Cafeteria	104,335
Assigned:	
Textbook Funds	80,756
Unassigned	(146,503)
Total fund balances	<u>\$ 196,161</u>
Total liabilities and fund balances	<u>\$ 1,255,487</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total fund balances per above	\$ 196,161
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Land	\$ 89,663
Buildings and improvements	1,036,190
Machinery, equipment, and vehicles	198,151
	<u>1,324,004</u>
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	\$ (385,194)
Net OPEB obligation	(200,000)
	<u>(585,194)</u>
Net position of governmental activities	<u>\$ 934,971</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, 2013

	School Operating Fund
<b>REVENUES</b>	
Revenue from the use of money and property	\$ 1,587
Charges for services	118,137
Miscellaneous	262,816
Recovered costs	23,495
Intergovernmental revenues:	
Local government	3,704,092
Commonwealth	5,485,055
Federal	844,909
Total revenues	<u>\$ 10,440,091</u>
<b>EXPENDITURES</b>	
Current:	
Education	\$ 10,342,211
Capital projects	226,457
Total expenditures	<u>\$ 10,568,668</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (128,577)</u>
Net change in fund balances	\$ (128,577)
Fund balances - beginning	<u>324,738</u>
Fund balances - ending	<u>\$ 196,161</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	\$ (128,577)
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	\$ 30,573
Depreciation expense	<u>(715,511)</u>
	(684,938)
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	\$ 20,008
(Increase) decrease in net OPEB obligation	<u>(11,300)</u>
	8,708
Change in net position of governmental activities	<u>\$ (804,807)</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, 2013

	School Operating Fund			Variance with
	Budgeted Amounts		Actual	Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 500	\$ 500	\$ 1,587	\$ 1,087
Charges for services	438,284	438,284	118,137	(320,147)
Miscellaneous	45,352	45,352	262,816	217,464
Recovered costs	270,000	270,000	23,495	(246,505)
Intergovernmental revenues:				
Local government	4,119,613	4,283,637	3,704,092	(579,545)
Commonwealth	5,212,190	5,510,924	5,485,055	(25,869)
Federal	831,182	831,182	844,909	13,727
Total revenues	\$ 10,917,121	\$ 11,379,879	\$ 10,440,091	\$ (939,788)
EXPENDITURES				
Current:				
Education	\$ 10,372,321	\$ 10,850,339	\$ 10,342,211	\$ 508,128
Capital projects	544,800	529,540	226,457	303,083
Total expenditures	\$ 10,917,121	\$ 11,379,879	\$ 10,568,668	\$ 811,211
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (128,577)	\$ (128,577)
Net change in fund balances	\$ -	\$ -	\$ (128,577)	\$ (128,577)
Fund balances - beginning	-	-	324,738	324,738
Fund balances - ending	\$ -	\$ -	\$ 196,161	\$ 196,161

## **Supporting Schedules**

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

Schedule 1  
Page 1 of 5

<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>
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,929,327	\$ 1,929,327	\$ 1,855,849	\$ (73,478)
Real and personal public service corporation taxes	161,300	161,300	176,416	15,116
Personal property taxes	899,148	899,148	883,107	(16,041)
Mobile home taxes	7,700	7,700	6,781	(919)
Machinery and tools taxes	4,223,800	4,223,800	3,744,516	(479,284)
Penalties	40,000	40,000	40,934	934
Interest	30,000	30,000	26,552	(3,448)
Total general property taxes	<u>\$ 7,291,275</u>	<u>\$ 7,291,275</u>	<u>\$ 6,734,155</u>	<u>\$ (557,120)</u>
Other local taxes:				
Local sales and use taxes	\$ 1,229,000	\$ 1,229,000	\$ 1,477,702	\$ 248,702
Consumers' utility taxes	425,000	425,000	432,791	7,791
Consumption taxes	23,000	23,000	25,762	2,762
Business license taxes	550,000	550,000	614,870	64,870
Franchise license taxes	1,500	1,500	-	(1,500)
Motor vehicle licenses	120,000	120,000	140,159	20,159
Bank stock taxes	136,980	136,980	147,294	10,314
Recordation tax	27,000	27,000	40,693	13,693
Hotel and motel room taxes	18,000	18,000	15,647	(2,353)
Restaurant food taxes	915,000	915,000	963,371	48,371
Tobacco taxes	120,000	120,000	120,879	879
Total other local taxes	<u>\$ 3,565,480</u>	<u>\$ 3,565,480</u>	<u>\$ 3,979,168</u>	<u>\$ 413,688</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 750	\$ 750	\$ 627	\$ (123)
Dog pound fees	50	50	109	59
Special use permits	20	20	767	747
Zoning and subdivision permits	800	800	200	(600)
Building permits	25,455	25,455	12,728	(12,727)
Sign permits	75	75	185	110
Other permits and licenses	2	2	142	140
Total permits, privilege fees, and regulatory licenses	<u>\$ 27,152</u>	<u>\$ 27,152</u>	<u>\$ 14,758</u>	<u>\$ (12,394)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 18,000	\$ 18,000	\$ 7,613	\$ (10,387)
Revenue from use of money and property:				
Revenue from use of money	\$ 23,500	\$ 23,500	\$ 37,986	\$ 14,486
Revenue from use of property	10,700	10,700	14,332	3,632
Total revenue from use of money and property	<u>\$ 34,200</u>	<u>\$ 34,200</u>	<u>\$ 52,318</u>	<u>\$ 18,118</u>
Charges for services:				
Charges for fire and rescue services	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Charges for sanitation and waste removal	789,450	789,450	630,311	(159,139)
Charges for parks and recreation	43,000	43,000	38,870	(4,130)
Charges for landfill closure	52,300	52,300	61,458	9,158
Charges for cemetery	31,690	31,690	37,900	6,210

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

Schedule 1  
Page 2 of 5

<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>
<b>General Fund: (Continued)</b>				
Revenue from local sources: (continued)				
Charges for services: (continued)				
Charges for other services	\$ 8,110	\$ 8,110	\$ 317	\$ (7,793)
Total charges for services	\$ 1,024,550	\$ 1,024,550	\$ 868,856	\$ (155,694)
Miscellaneous revenue:				
Miscellaneous	\$ 18,753	\$ 18,753	\$ 3,436	\$ (15,317)
Recovered costs:				
CSA recoveries	\$ -	\$ -	\$ 26,171	\$ 26,171
Other recovered costs	16,000	46,390	36,075	(10,315)
Total recovered costs	\$ 16,000	\$ 46,390	\$ 62,246	\$ 15,856
Total revenue from local sources	\$ 11,995,410	\$ 12,025,800	\$ 11,722,550	\$ (303,250)
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 25,000	\$ 25,000	\$ 34,625	\$ 9,625
Mobile home titling tax	2,000	2,000	3,991	1,991
Motor vehicle rental tax	-	-	27,312	27,312
State recordation tax	-	-	5,564	5,564
State aid to localities	-	-	(46,920)	(46,920)
Telecommunications taxes	315,000	315,000	317,764	2,764
Personal property tax relief funds	550,890	550,890	550,890	-
Total noncategorical aid	\$ 892,890	\$ 892,890	\$ 893,226	\$ 336
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 67,000	\$ 67,000	\$ 69,902	\$ 2,902
Treasurer	61,900	61,900	64,569	2,669
Registrar/electoral board	31,000	31,000	26,497	(4,503)
Total shared expenses	\$ 159,900	\$ 159,900	\$ 160,968	\$ 1,068
Other categorical aid:				
Welfare payments	\$ 226,832	\$ 226,832	\$ 128,726	\$ (98,106)
CSA payments	770,000	770,000	538,397	(231,603)
Criminal justice grant	240,429	240,429	257,128	16,699
Litter control grant	4,876	6,947	6,946	(1)
Technology E-911 grants	41,000	41,000	28,629	(12,371)
Fire program	16,000	16,000	175,508	159,508
Asset forfeiture	33,000	33,000	7,716	(25,284)
Local government challenge grant	5,000	5,000	5,000	-
Emergency four for life	5,100	5,100	5,408	308
Law enforcement block grant	5,472	5,472	3,557	(1,915)
State highway payments	917,000	917,000	934,840	17,840
Victim-witness grant	14,438	14,438	13,048	(1,390)
Information technology E-911 grant	-	200,000	-	(200,000)
E-911 grant program - wireless trunking	1,418	1,418	105,641	104,223

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

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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>
<b>General Fund: (Continued)</b>				
Intergovernmental revenues: (continued)				
Revenue from the Commonwealth: (continued)				
Categorical aid: (continued)				
Other categorical aid: (continued)				
Other State funds	\$ 107	\$ 107	\$ 114	\$ 7
Total other categorical aid	\$ 2,280,672	\$ 2,482,743	\$ 2,210,658	\$ (272,085)
Total categorical aid	\$ 2,440,572	\$ 2,642,643	\$ 2,371,626	\$ (271,017)
Total revenue from the Commonwealth	\$ 3,333,462	\$ 3,535,533	\$ 3,264,852	\$ (270,681)
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ 43,315	\$ 43,315	\$ 39,144	\$ (4,171)
Bulletproof vest program grant	1,750	-	-	-
FEMA emergency management	-	-	45,061	45,061
DMV grant	20,000	20,000	6,590	(13,410)
Bureau of justice	-	-	539	539
Byrne criminal justice grant	-	1,750	-	(1,750)
Public assistance and welfare administration	194,006	194,006	109,994	(84,012)
Total categorical aid	\$ 259,071	\$ 259,071	\$ 201,328	\$ (57,743)
Total revenue from the federal government	\$ 259,071	\$ 259,071	\$ 201,328	\$ (57,743)
Total General Fund	\$ 15,587,943	\$ 15,820,404	\$ 15,188,730	\$ (631,674)
<b>Debt Service Fund:</b>				
<b>School Debt Service Reserve Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ 18,420	\$ 26,772	\$ 26,772	\$ -
Intergovernmental revenue:				
Revenues from local governments:				
Contribution from Covington City Schools	\$ 300,000	\$ 300,000	\$ 300,000	\$ -
Total School Debt Service Fund	\$ 318,420	\$ 326,772	\$ 326,772	\$ -
<b>Capital Projects Fund:</b>				
<b>School Construction Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ 357	\$ 162	\$ (195)
Total School Construction Fund	\$ -	\$ 357	\$ 162	\$ (195)
Total Primary Government	\$ 15,906,363	\$ 16,147,533	\$ 15,515,664	\$ (631,869)



City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
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For the Year Ended June 30, 2013

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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>
<b>Discretely Presented Component Unit - School Board:</b>				
<b>School Operating Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 250	\$ 250
Revenue from the use of property	500	500	1,337	837
Total revenue from use of money and property	\$ 500	\$ 500	\$ 1,587	\$ 1,087
Charges for services:				
Cafeteria sales	\$ 438,284	\$ 438,284	\$ 118,137	\$ (320,147)
Miscellaneous revenue:				
Miscellaneous	\$ 45,352	\$ 45,352	\$ 262,816	\$ 217,464
Recovered costs:				
Payments from other localities	\$ 270,000	\$ 270,000	\$ 23,495	\$ (246,505)
Total revenue from local sources	\$ 754,136	\$ 754,136	\$ 406,035	\$ (348,101)
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Covington, Virginia	\$ 4,119,613	\$ 4,283,637	\$ 3,704,092	\$ (579,545)
Revenue from the Commonwealth:				
Categorical aid:				
Algebra readiness	\$ 11,493	\$ 11,493	\$ 13,856	\$ 2,363
At risk four year olds	86,700	86,700	86,700	-
At risk payments	114,072	121,350	121,350	-
Basic school aid	2,497,673	2,712,517	2,687,153	(25,364)
Early reading intervention	18,046	18,046	22,557	4,511
Education technology payment	154,000	154,000	134,177	(19,823)
English as a second language	862	862	862	-
Fringe benefits	521,477	550,192	550,554	362
Gifted and talented	27,253	27,253	28,931	1,678
ISAEF program	7,859	7,859	7,859	-
National board certification teacher bonus	-	-	5,000	5,000
Primary class size	168,284	175,940	175,940	-
Remedial education	116,713	123,900	123,900	-
School food	13,256	13,256	12,312	(944)
Remedial summer education	24,264	24,264	24,264	-
Share of state sales tax	852,933	859,388	855,566	(3,822)
Special education	433,262	459,861	459,728	(133)
Special education - foster children	15,983	15,983	15,265	(718)
Textbook payment	53,161	53,161	56,434	3,273
Vocational education	90,645	90,645	96,227	5,582
Vocational education - equipment	4,254	4,254	2,475	(1,779)
Other categorical aid	-	-	3,945	3,945
Total categorical aid	\$ 5,212,190	\$ 5,510,924	\$ 5,485,055	\$ (25,869)
Total revenue from the Commonwealth	\$ 5,212,190	\$ 5,510,924	\$ 5,485,055	\$ (25,869)

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

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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 revenues: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 264,325	\$ 264,325	\$ 238,014	\$ (26,311)
Title VI-B, special education flow-through	172,500	172,500	220,757	48,257
Vocational education	18,084	18,084	15,999	(2,085)
Title VI-B, special education pre-school	10,273	10,273	10,265	(8)
School lunch program	300,000	300,000	280,324	(19,676)
School lunch commodities		-	23,813	23,813
Education technology	3,000	3,000	-	(3,000)
Class size reduction	63,000	63,000	52,818	(10,182)
FEMA disaster recovery		-	2,919	2,919
Total categorical aid	<u>\$ 831,182</u>	<u>\$ 831,182</u>	<u>\$ 844,909</u>	<u>\$ 13,727</u>
Total revenue from the federal government	<u>\$ 831,182</u>	<u>\$ 831,182</u>	<u>\$ 844,909</u>	<u>\$ 13,727</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 10,917,121</u>	<u>\$ 11,379,879</u>	<u>\$ 10,440,091</u>	<u>\$ (939,788)</u>

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

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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>
<b>General Fund:</b>				
General government administration:				
Legislative:				
City council	\$ 34,473	\$ 44,118	\$ 43,342	\$ 776
City clerk	11,155	14,108	13,433	675
Total legislative	\$ 45,628	\$ 58,226	\$ 56,775	\$ 1,451
General and financial administration:				
City manager	\$ 260,249	\$ 181,763	\$ 164,384	\$ 17,379
Information technology	74,400	74,400	42,344	32,056
Legal services	50,545	53,547	50,355	3,192
Commissioner of revenue	224,445	224,445	214,469	9,976
Independent auditors	55,500	55,500	44,598	10,902
Treasurer	282,246	283,646	280,535	3,111
Central accounting	420,508	457,109	448,541	8,568
Board of Equalization	3,000	3,000	-	3,000
Total general and financial administration	\$ 1,370,893	\$ 1,333,410	\$ 1,245,226	\$ 88,184
Board of elections:				
Electoral board and officials	\$ 67,958	\$ 67,958	\$ 64,663	\$ 3,295
Total general government administration	\$ 1,484,479	\$ 1,459,594	\$ 1,366,664	\$ 92,930
Judicial administration:				
Courts:				
Circuit court	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
General district court	5,000	5,000	5,000	-
Magistrates office	4,000	4,000	1,352	2,648
Clerk of the circuit court	37,115	37,115	37,115	-
Sheriff (court)	51,184	51,184	51,184	-
Total courts	\$ 107,299	\$ 107,299	\$ 104,651	\$ 2,648
Commonwealth's attorney:				
Commonwealth's attorney	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Total judicial administration	\$ 127,299	\$ 127,299	\$ 124,651	\$ 2,648
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,317,451	\$ 1,400,993	\$ 1,327,604	\$ 73,389
Sheriff	100,000	100,000	100,000	-
Victim witness	57,753	57,753	53,954	3,799
E-911 wireless grant	542,479	1,043,600	956,744	86,856
School resource officer	62,165	62,165	61,130	1,035
Seizure/forfeiture funds	38,000	38,000	6,858	31,142
Total law enforcement and traffic control	\$ 2,117,848	\$ 2,702,511	\$ 2,506,290	\$ 196,221
Fire and rescue services:				
Volunteer fire department	\$ 196,477	\$ 377,114	\$ 350,905	\$ 26,209
Ambulance service	79,853	79,853	78,189	1,664
Total fire and rescue services	\$ 276,330	\$ 456,967	\$ 429,094	\$ 27,873

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2013

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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>
<b>General Fund: (Continued)</b>				
Public safety: (continued)				
Correction and detention:				
Sheriff (jail)	\$ 142,795	\$ 142,795	\$ 142,795	\$ -
Probation office	6,000	6,000	2,865	3,135
Total correction and detention	\$ 148,795	\$ 148,795	\$ 145,660	\$ 3,135
Inspections:				
Building	\$ 94,547	\$ 96,547	\$ 92,996	\$ 3,551
Other protection:				
Animal control	\$ 107,072	\$ 108,805	\$ 109,582	\$ (777)
Medical examiner	100	100	20	80
Total other protection	\$ 107,172	\$ 108,905	\$ 109,602	\$ (697)
Total public safety	\$ 2,744,692	\$ 3,513,725	\$ 3,283,642	\$ 230,083
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 124,584	\$ 132,834	\$ 130,583	\$ 2,251
Street department	1,058,346	1,047,876	1,049,112	(1,236)
Snow and ice removal	42,219	31,073	31,069	4
Traffic engineering	85,652	83,152	80,097	3,055
Street lights	159,500	169,858	169,729	129
Total maintenance of highways, streets, bridges & sidewalks	\$ 1,470,301	\$ 1,464,793	\$ 1,460,590	\$ 4,203
Sanitation and waste removal:				
Refuse collection	\$ 308,018	\$ 314,318	\$ 315,356	\$ (1,038)
Refuse disposal	375,718	404,268	383,438	20,830
Street cleaning	1,550	-	-	-
Landfill closure	12,500	12,500	8,674	3,826
Litter control grant	4,876	6,947	6,947	-
Recycling program	27,000	27,000	27,000	-
Total sanitation and waste removal	\$ 729,662	\$ 765,033	\$ 741,415	\$ 23,618
Maintenance of general buildings and grounds:				
General properties	\$ 345,625	\$ 343,625	\$ 267,265	\$ 76,360
Total public works	\$ 2,545,588	\$ 2,573,451	\$ 2,469,270	\$ 104,181
Health and welfare:				
Health:				
Supplement of local health department	\$ 97,790	\$ 97,790	\$ 96,526	\$ 1,264
Alleghany Highlands free clinic	7,000	7,000	7,000	-
Total health	\$ 104,790	\$ 104,790	\$ 103,526	\$ 1,264
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, 2013

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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>
<b>General Fund: (Continued)</b>				
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	1,036,750	1,036,750	839,544	197,206
HOPE, Inc.	500	500	500	-
Social Services	566,177	566,177	351,497	214,680
Other welfare	15,000	15,000	42,574	(27,574)
Total welfare	<u>\$ 1,638,027</u>	<u>\$ 1,638,027</u>	<u>\$ 1,253,715</u>	<u>\$ 384,312</u>
 Total health and welfare	 \$ 1,762,817	 \$ 1,762,817	 \$ 1,377,241	 \$ 385,576
Education:				
Other instructional costs:				
Contributions to Community College	\$ 1,500	\$ 1,500	\$ 1,500	\$ -
Contribution to City School Board	4,119,613	4,283,637	4,004,092	279,545
Total education	<u>\$ 4,121,113</u>	<u>\$ 4,285,137</u>	<u>\$ 4,005,592</u>	<u>\$ 279,545</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 846,479	\$ 918,385	\$ 925,618	\$ (7,233)
Cultural enrichment:				
Senior center	\$ 114,827	\$ 72,177	\$ 69,096	\$ 3,081
Cemetery	162,889	149,189	146,409	2,780
League of older Americans	1,691	1,691	1,691	-
YMCA	3,100	5,700	5,700	-
Alleghany Highlands arts council	7,200	7,200	7,200	-
Alleghany Highlands arts/craft center	2,800	2,800	2,800	-
Total cultural enrichment	<u>\$ 292,507</u>	<u>\$ 238,757</u>	<u>\$ 232,896</u>	<u>\$ 5,861</u>
Library:				
Contribution to regional library	\$ 110,598	\$ 110,598	\$ 110,598	\$ -
 Total parks, recreation, and cultural	 \$ 1,249,584	 \$ 1,267,740	 \$ 1,269,112	 \$ (1,372)
Community development:				
Planning and community development:				
Planning commission	\$ 7,945	\$ 21,235	\$ 19,911	\$ 1,324
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	612	612	159	453
Economic development	41,857	49,857	49,857	-
Total planning and community development	<u>\$ 70,414</u>	<u>\$ 91,704</u>	<u>\$ 89,927</u>	<u>\$ 1,777</u>
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, 2013

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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>
<b>General Fund: (Continued)</b>				
Community development: (Continued)				
Cooperative extension program:				
Extension office	\$ 5,000	\$ 7,796	\$ 7,796	\$ -
Total community development	\$ 77,414	\$ 101,500	\$ 99,723	\$ 1,777
Nondepartmental:				
Contingencies	\$ 133,430	\$ 65,080	\$ -	\$ 65,080
Debt service:				
Principal retirement	\$ 477,289	\$ 477,289	\$ 473,155	\$ 4,134
Interest and other fiscal charges	973,198	973,198	971,983	1,215
Total debt service	\$ 1,450,487	\$ 1,450,487	\$ 1,445,138	\$ 5,349
Total General Fund	\$ 15,696,903	\$ 16,606,830	\$ 15,441,033	\$ 1,165,797
Total Primary Government	\$ 15,696,903	\$ 16,606,830	\$ 15,441,033	\$ 1,165,797
<b>Discretely Presented Component Unit - School Board:</b>				
<b>School Operating Fund:</b>				
Education:				
Administration of schools:				
Attendance and health services	\$ 352,817	\$ 391,468	\$ 335,456	\$ 56,012
Executive administration services	303,158	310,673	305,913	4,760
Total administration of schools	\$ 655,975	\$ 702,141	\$ 641,369	\$ 60,772
Instruction costs:				
Instruction costs	\$ 7,504,164	\$ 7,843,623	\$ 7,837,110	\$ 6,513
School food services:				
Administration of school food program	\$ 725,321	\$ 790,573	\$ 446,892	\$ 343,681
Operating costs:				
Pupil transportation	\$ 328,819	\$ 347,463	\$ 332,094	\$ 15,369
Operation and maintenance of school plant	964,044	1,045,966	936,423	109,543
Facilities	193,998	120,573	148,323	(27,750)
Total operating costs	\$ 1,486,861	\$ 1,514,002	\$ 1,416,840	\$ 97,162
Total education	\$ 10,372,321	\$ 10,850,339	\$ 10,342,211	\$ 508,128
Capital projects:				
School capital projects	\$ 544,800	\$ 529,540	\$ 226,457	\$ 303,083
Total Discretely Presented Component Unit - School Board	\$ 10,917,121	\$ 11,379,879	\$ 10,568,668	\$ 811,211

## 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
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
2003-04	1,121,931	69,451	2,156,715	3,644,914	1,275,738	4,587,526	1,668,570	324,659	299,280	1,121,311	937,552	17,207,647



Table 2

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
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
2003-04	3,485,319	2,388,752	190,160		6,626,610	2,736,083	28,838	651,196	584,240	-	16,691,198

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
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	122,901	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
2003-04	1,160,650	69,451	2,060,032	2,326,777	1,271,537	9,541,118	1,763,737	324,601	-	-	909,478	19,427,381

(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.

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	
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
2003-04		6,621,945		2,736,083		13,386		25,082		29,593		1,112,448		652,947		246,078		8,063,594		19,501,156

(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.

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 Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1,2)	Percent of Delinquent Taxes to Tax Levy
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%
2003-04	7,005,380	6,968,616	99.48%	122,041	7,090,657	101.22%	452,027	6.45%

(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		
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	
2003-04	242,385,405	18,505,757	77,683,500	20,318,577	15,167	358,908,406	

(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
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
2003-04	0.66	0.66	5.60	5.53

(1) Per \$100 of assessed value.

Table 8

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
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
2003-04	6,303	358,908	10,425,000	2.90%	1,654

(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
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%
2003-04	602,218	307,260	909,478	19,427,381	4.68%

(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, 2013

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## Legal Debt Limit:

10% of Assessed Value of Taxable Real Estate \$272,817,085	\$ 27,281,709
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## Deduct:

Debt Payable	17,906,100
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Legal Margin for Creation of Additional Debt	<u>\$ 9,375,609</u>
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## COMPLIANCE SECTION

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## 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

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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 discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Covington, Virginia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Covington, Virginia's basic financial statements and have issued our report thereon dated December 16, 2013.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 City of Covington, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 controls, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies [2013-1 and 2013-2.]

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 did not disclose an instance 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 16, 2013

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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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, 2013. City of Covington, Virginia's major federal programs are identified in the summary of auditor's 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, 2013.

### 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 16, 2013

City of Covington, Virginia  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>DEPARTMENT OF AGRICULTURE:</b>			
Pass Through Payments:			
Child Nutrition Cluster:			
<i>Department of Agriculture:</i>			
Food Distribution-Schools (Note 3)	10.555	Not available	\$ 23,813
<i>Department of Education:</i>			
National School Lunch Program	10.555	40623	209,958
School Breakfast Program	10.553	40591	\$ 233,771
Total Department of Agriculture			\$ 70,366
			\$ 304,137
<b>DEPARTMENT OF EDUCATION:</b>			
Pass Through Payments:			
<i>Department of Education:</i>			
Title I - Grants to Local Educational Agencies	84.010	42901	\$ 238,014
Special Education Cluster:			
Special Education - Grants to States	84.027	43071	220,757
Special Education - Preschool Grants	84.173	61245	10,265
Education Technology State Grants	84.318	61600	15,999
Improving Teacher Quality - State Grants	84.367	61480	52,818
Total Department of Education			\$ 537,853
<b>DEPARTMENT OF JUSTICE:</b>			
Pass Through Payments:			
<i>Department of Criminal Justice Services:</i>			
Crime Victim Assistance	16.575	11VAGX0001	\$ 39,144
		12VAGX0001	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	12DJBX0272	539
Total Department of Justice			\$ 39,683
<b>DEPARTMENT OF HOMELAND SECURITY:</b>			
Pass Through Payments:			
<i>Department of Emergency Management:</i>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	158, 11099	\$ 47,980
<b>DEPARTMENT OF TRANSPORTATION:</b>			
Pass Through Payments:			
<i>Department of Motor Vehicles:</i>			
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	K8-2013-53170-4885	\$ 1,965
Alcohol Open Container Requirements	20.607	154AL 12 52177 POLICE	4,625
Total Department of Transportation			\$ 6,590
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass Through Payments:			
<i>Department of Social Services:</i>			
Promoting Safe and Stable Families	93.556	0950112,0950113	\$ 10,275
Temporary Assistance for Needy Families	93.558	0400112,0400113	5,538
Child Care and Development Block Grant	93.575	0770113	(200)
Chafee Education and Training Vouchers Program	93.599	9160112	401
Foster Care - Title IV-E	93.658	1100112,1100113	8,093
Adoption Assistance	93.659	1120112,1120113	60,130
Social Services Block Grant	93.667	1000112,1000113	23,689
Chafee Foster Care Independence Program	93.674	915112,9150113	2,068
Total Department of Health and Human Services			\$ 109,994
Total Expenditures of Federal Awards			\$ 1,046,237

City of Covington, Virginia  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013

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## 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, 2013. 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, 2013, the Covington City School Board held food commodities totaling \$23,813 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	\$ 201,328
Total primary government:	\$ 201,328
Component Unit School Board:	
School Operating Fund	\$ 844,909
Total Federal Expenditures per Basic Financial Statements	<u>\$ 1,046,237</u>



Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

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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:

CFDA #	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.027/84.173	Title VI-B Special Education 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

2013-1	
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, 2013

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Section II - Financial Statement Findings (Continued)

2013-1 (Continued)

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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.

2013-2

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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 2013 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 2013 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 Finding 2012-1 is repeating during the current year as 2013-1. Financial Statement Finding 2012-2 was resolved during the current year.