

CITY OF COVINGTON, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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CITY OF COVINGTON, VIRGINIA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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TABLE OF CONTENTS

---

INTRODUCTORY SECTION

---

	<u>Page</u>
List of Elected and Appointed Officials .....	1

---

FINANCIAL SECTION

---

Independent Auditors' Report .....	2-4
Management's Discussion and Analysis .....	5-15

	<u>Exhibit</u>	<u>Page</u>
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position .....	1	16
Statement of Activities .....	2	17
Fund Financial Statements:		
Balance Sheet - Governmental Funds .....	3	18
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position .....	4	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	5	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	6	21
Statement of Net Position - Proprietary Funds .....	7	22
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds .....	8	23
Statement of Cash Flows - Proprietary Funds .....	9	24
Notes to the Financial Statements .....		25-83

Required Supplementary Information:

Schedule of Revenues, Expenditures and Change in Fund Balances - Budget and Actual:		
General Fund .....	10	84
Schedule of OPEB Funding Progress .....	11	85
Schedule of Components of and Changes in Net Pension Liability and Related Ratios - Primary Government .....	12	86
Schedule of Components of and Changes in Net Pension Liability and Related Ratios - Component Unit School Board (nonprofessional) .....	13	87
Schedule of Employer's Share of Net Pension Liability VRS Teacher Retirement Plan .....	14	88
Schedule of Employer Contributions .....	15	89
Notes to Required Supplementary Information .....	16	90

CITY OF COVINGTON, VIRGINIA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

---

TABLE OF CONTENTS (CONTINUED)

---

FINANCIAL SECTION (CONTINUED)

---

	<u>Exhibit</u>	<u>Page</u>
Other Supplementary Information:		
Individual Fund Financial Statements and Schedules:		
Schedule of Revenues, Expenditures and Change in Fund Balances - Budget and Actual:		
School Debt Service Fund .....	17	91
School Construction Fund .....	18	92
Discretely Presented Component Unit - School Board:		
Balance Sheet .....	19	93
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds .....	20	94
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual .....	21	95

	<u>Schedule</u>	<u>Page</u>
Supporting Schedules:		
Schedule of Revenues - Budget and Actual - Governmental Funds .....	1	96-99
Schedule of Expenditures - Budget and Actual - Governmental Funds .....	2	100-103

	<u>Table</u>	<u>Page</u>
Other Statistical Information:		
Government-wide information:		
Government-Wide Expenses by Function .....	1	104
Government-Wide Revenues .....	2	105
Fund information:		
General Governmental Expenditures by Function .....	3	106
General Governmental Revenues by Source .....	4	107
Property Tax Levies and Collections .....	5	108
Assessed Value of Taxable Property .....	6	109
Property Tax Rates .....	7	110
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita .....	8	111
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures.....	9	112
Computation of Legal Debt Margin .....	10	113

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COMPLIANCE SECTION

---

	<u>Page</u>
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 <i>Government Auditing Standards</i> .....	114-115

CITY OF COVINGTON, VIRGINIA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

---

TABLE OF CONTENTS (CONTINUED)

---

COMPLIANCE SECTION (CONTINUED)

---

	<u>Page</u>
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance .....	116-117
Schedule of Expenditures of Federal Awards .....	118-119
Schedule of Findings and Questioned Costs .....	120-121

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## INTRODUCTORY SECTION

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## CITY OF COVINGTON, VIRGINIA

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### CITY COUNCIL

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

### CITY SCHOOL BOARD

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Cynthia Bennett, Vice-Chair	Tammy Scruggs-Duncan, Chair	Eddy Clemons
Nicole Rickett		Robert C. Garten

### OTHER OFFICIALS

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City Manager .....	Richard Douglas
City Finance Director .....	David Bryant, Jr.
City Attorney .....	Theresa J. Fontana
Commissioner of the Revenue .....	Cathy M. Kimberlin
City Treasurer .....	Theresa Harrison
Superintendent of Schools .....	Melinda Snead-Johnson
Chief of Police .....	Joseph B. Broughman

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## FINANCIAL SECTION

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Covington, Virginia, as of and for the year ended June 30, 2016, 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund of the City of Covington, Virginia, as of June 30, 2016, 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.

## *Change in Accounting Principle*

As described in Note 22 to the financial statements, in 2016, the City adopted new accounting guidance, GASB Statement Nos. 72 Fair Value Measurement and Application, 79 Certain External Investment Pools and Pool Participants, and 82 Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. 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, budgetary comparison information, and schedules related to pension and OPEB funding on pages 5-15, 84, and 85-90 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, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

*Other Information (continued)*

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

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016, on our consideration of the City of Covington, Virginia, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Covington, Virginia's internal control over financial reporting and compliance.

*Robinson, Turner, Co. Associates*

Blacksburg, Virginia  
November 16, 2016

# CITY OF COVINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS

## FISCAL YEAR 2016 (JULY 1, 2015 – JUNE 30, 2016)

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, 2016.

### Financial Highlights

- In Governmental Activities, the liabilities and deferred inflows of resources of the City of Covington exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$(3,511,669) "total net position". The unrestricted net position as the end of fiscal year 2016 is \$(6,346,198). These negative balances are driven primarily by *unfunded liabilities* including landfill closure/post closure costs, compensated absences costs, OPEB obligations and net pension liability totaling \$10,404,415. "Total net position" is \$1,085,957 improved from the previous fiscal year and the unrestricted net position is improved \$1,148,051 as well.
- The City of Covington's total net position (Governmental Activities & Business Type Activities) increased \$1,952,308 from End of Year FY 2015 to End of Year FY 2016.
- At the close of the current fiscal year, the City of Covington's governmental funds reported an *unassigned* general fund balance of \$3,911,972 for an increase of \$1,248,714 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the City of Covington's governmental funds reported combined fund balances of \$4,426,816 a decrease of \$836,607 in comparison with the prior fiscal year. This change was primarily driven by the use of restricted school construction funds (\$1,012,744) the previous fiscal 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 \$4,425,921, or approximately 27.0% of total general fund expenditures.

### Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements include not only the City of Covington itself (known as the *primary government*), but also a separate school system. Financial information for this *component unit* 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 Exhibits 1 and 2 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 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 Exhibits 3-9 of this report.

**Proprietary Funds:** The City of Covington maintains one type of proprietary fund. 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 operations.

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.

The basic proprietary fund financial statements can be found on Exhibits 7-9 of this report.

**Notes to the Financial Statements:** 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 following the basic governmental financial statements.

**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 statistical information.

### **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 exceeded liabilities and deferred inflows of resources by \$9,282,064 at the close of the most recent fiscal year.

### **Note to Net Position Chart**

Total Net position has been impacted as the General Fund has been restated \$75,121 for "pre-paid" in the component unit schools as required to pass back through the General Fund. Numbers in the narrative portions reflect this restatement.

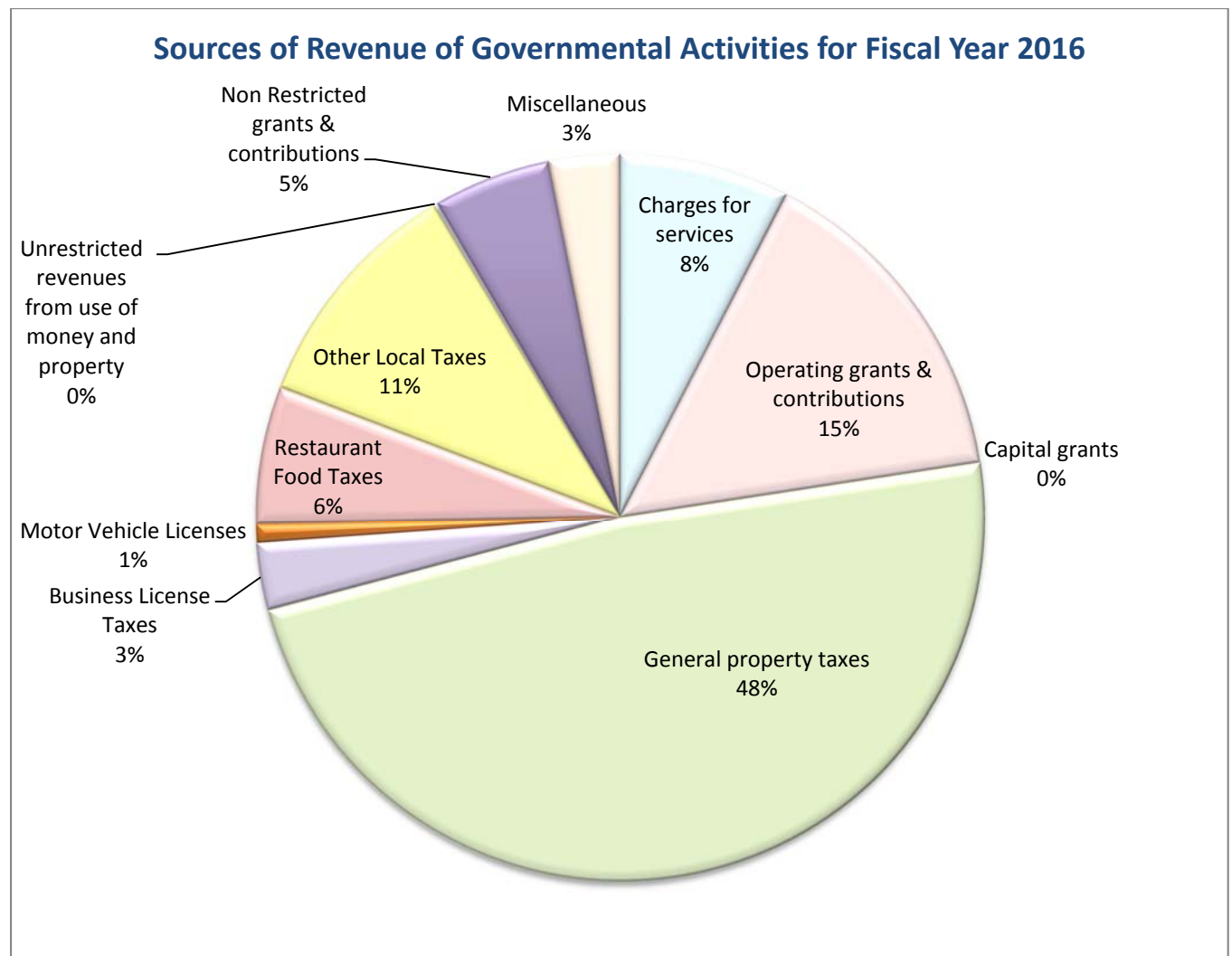
## City of Covington's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Assets:</b>						
Current and other assets	\$ 7,251,374	\$ 8,313,059	\$ 5,990,289	\$ 8,635,517	\$ 13,241,663	\$ 16,948,576
Capital assets	\$ 27,927,482	\$ 27,217,119	\$ 23,871,789	\$ 22,191,549	\$ 51,799,271	\$ 49,408,668
<b>Total Assets</b>	<b>\$ 35,178,856</b>	<b>\$ 35,530,178</b>	<b>\$ 29,862,078</b>	<b>\$ 30,827,066</b>	<b>\$ 65,040,934</b>	<b>\$ 66,357,244</b>
<b>Deferred Outflows</b>						
<b>of Resources</b>	<b>\$ 1,682,142</b>	<b>\$ 735,204</b>	<b>\$ 106,380</b>	<b>\$ 103,119</b>	<b>\$ 1,788,522</b>	<b>\$ 838,323</b>
<b>Liabilities:</b>						
Current liabilities	\$ 1,829,446	\$ 2,160,150	\$ 330,216	\$ 2,080,339	\$ 2,159,662	\$ 4,240,489
Long-term liabilities	\$ 36,019,859	\$ 35,858,701	\$ 16,728,571	\$ 16,728,571	\$ 52,748,430	\$ 52,587,272
<b>Total Liabilities</b>	<b>\$ 37,849,305</b>	<b>\$ 38,018,851</b>	<b>\$ 17,058,787</b>	<b>\$ 18,808,910</b>	<b>\$ 54,908,092</b>	<b>\$ 56,827,761</b>
<b>Deferred Inflows</b>						
<b>of Resources</b>	<b>\$ 2,523,362</b>	<b>\$ 2,919,278</b>	<b>\$ 115,938</b>	<b>\$ 193,893</b>	<b>\$ 2,639,300</b>	<b>\$ 3,113,171</b>
<b>Net Position:</b>						
Net investment						
in capital assets	\$ 2,320,580	\$ 1,837,024	\$ 8,713,076	\$ 9,503,956	\$ 11,033,656	\$ 11,340,980
Restricted	\$ 513,949	\$ 984,478	\$ 648,967	\$ 648,337	\$ 1,162,916	\$ 1,632,815
Unrestricted	\$(6,346,198)	\$(7,494,249)	\$ 3,431,690	\$ 1,775,089	\$(2,914,508)	\$(5,719,160)
<b>Total Net Position</b>	<b>\$(3,511,669)</b>	<b>\$(4,672,747)</b>	<b>\$ 12,793,733</b>	<b>\$ 11,927,382</b>	<b>\$ 9,282,064</b>	<b>\$ 7,254,635</b>

The City of Covington's net position reflects its investment in capital assets of \$11,033,656 (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 represents resources that are subject to external restrictions on how they may be used. These restrictions total \$1,162,916 and are comprised of \$121,653 of unspent grants and \$392,296 of unspent capital lease proceeds in the Governmental Activities and \$648,967 restricted for debt service and bond covenant in the Business-Type Activities. The remaining balance of \$(2,914,508) is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors based on relation to future unfunded liabilities as noted in the Financial Highlights section that was previously presented.

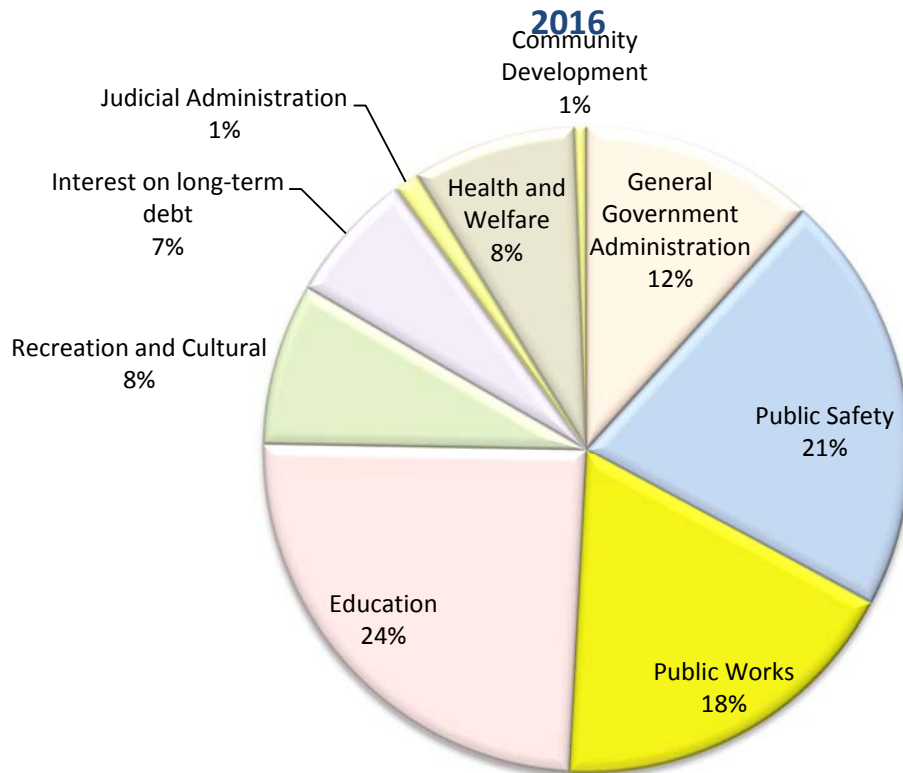
The City of Covington's total net position increased \$1,952,308 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.



**Governmental Activities:** During the current fiscal year, net position for governmental activities increased \$1,085,957 from the prior fiscal year for an ending balance of \$(3,511,669). While the current economic conditions certainly had an impact on the City of Covington, and expenses in General Government Administration, Public Safety, and Public Works increased, they were offset by reductions in Education, Parks Recreation and Cultural, Judicial Administration, Health and Welfare, Interest on Long term Debt, and Community Development. These reductions created an overall expenditure decrease of \$117,025. Also, Revenue increases of \$433,865 from fiscal year 2015 to fiscal year 2016 were realized. Miscellaneous revenues increased \$399,647 and General property taxes increased \$219,554 while charges for services declined \$(263,558) from the previous fiscal year.

**Business-type Activities:** For the City of Covington’s business-type activities, the results for the current fiscal year are positive in that overall net position increased to reach an ending balance of \$12,793,733. The total increase in net position for business-type activities (water and sanitation/sewer) was \$866,351 or 7.26% from the prior fiscal year. The increase is due primarily to normal business activity and \$262,800 in additional revenue in charges for services.

### Total Functional Expenses of Governmental Activities for Fiscal Year



#### Note to Statement of Activities Chart

Total Net position has been impacted as the General Fund has been restated \$75,121 for “pre-paid” in the component unit schools as required to pass back through the general Fund. Numbers in the narrative portions reflect this restatement.



**Statement of Activities**  
**June 30, 2016 and 2015**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Total</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenues:						
Program revenues:						
Charges for services	\$ 1,275,382	\$ 1,538,940	\$ 3,772,791	\$ 3,470,543	\$ 5,048,173	\$ 5,009,483
Operating grants & contributions	2,525,991	2,405,973			2,525,991	2,405,973
Capital grants & contributions	2,573	8,136	6,517	47,246	9,090	55,382
General revenues:						
General property taxes	8,137,262	7,917,708	-	-	8,137,262	7,917,708
Other taxes	3,647,128	3,656,977	-	-	3,647,128	3,656,977
Unrestricted revenues from use of money and property	26,619	43,680	5,745	7,473	32,364	51,153
Grants and contributions not restricted to specific programs	884,099	893,422	-	-	884,099	893,422
Miscellaneous	530,886	131,239	12,462	9,453	543,348	140,692
Total revenues	\$ 17,029,940	\$ 16,596,075	\$ 3,797,515	\$ 3,534,715	\$ 20,827,455	\$ 20,130,790
Expenses:						
General government Administration	\$ 1,917,011	\$ 1,509,994	\$ -	\$ -	\$ 1,917,011	\$ 1,509,994
Public Safety	3,460,421	3,366,041	-	-	3,460,421	3,366,041
Public Works	2,934,344	2,598,684	-	-	2,934,344	2,598,684
Education	3,995,718	4,304,188	-	-	3,995,718	4,304,188
Culture and Recreation	1,324,136	1,568,825	-	-	1,324,136	1,568,825
Interest on long-term debt	1,074,337	1,211,614	-	-	1,074,337	1,211,614
Judicial Administration	199,965	295,423	-	-	199,965	295,423
Health and Welfare	1,342,892	1,498,921	-	-	1,342,892	1,498,921
Community Development	97,984	110,143	-	-	97,984	110,143
Water	-	-	1,054,462	1,093,836	1,054,462	1,093,836
Sanitation	-	-	1,473,877	1,459,626	1,473,877	1,459,626
Total expenses	\$ 16,346,808	\$ 16,463,833	\$ 2,528,339	\$ 2,553,462	\$ 18,875,147	\$ 19,017,295
Increase (decrease) in net position	\$ 683,132	\$ 132,242	\$ 1,269,176	\$ 981,253	\$ 1,952,308	\$ 1,113,495
Transfers	402,825	386,043	(402,825)	(386,043)	-	-
Increase (decrease) in net position	\$ 1,085,957	\$ 518,285	\$ 866,351	\$ 595,210	\$ 1,952,308	\$ 1,113,495
Net Position - beginning (restated)	(4,597,626)	(5,191,032)	11,927,382	11,332,172	7,329,756	6,141,140
Ending net position	\$ (3,511,669)	\$ (4,672,747)	\$ 12,793,733	\$ 11,927,382	\$ 9,282,064	\$ 7,254,635

## 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, 2016, the City of Covington's governmental funds reported combined fund balances of \$4,426,816, a decrease of \$836,607. Of this amount (\$3,911,972) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either:

- 1) Restricted – Amounts constrained for specific purposes by their providers (such as grantees, bondholders, higher levels of government), constitutional provisions, or by enabling legislation. Of the City's total fund balance, \$513,949 is considered restricted.
- 2) Committed – Amounts constrained for specific purposes by the government itself, using its highest level of decision making authority. Of the City's total fund balance, \$895 is considered committed.

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 \$3,911,972 while total fund balance was \$4,425,921. 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 23.9 percent of total general fund expenditures, while total fund balance represents approximately 27.0 percent of that same amount.

The unassigned fund balance of the City of Covington's general fund increased \$1,248,714 from the end of FY15 to the end of FY16.

The portion of fund balance restricted for unspent capital leases of \$392,296 is for the ongoing software project.

**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.

Both the Water and Sewer Funds enjoyed an increase in total net position, with the Water Fund increasing \$790,714 and the Sewer Fund increasing \$75,637. Unrestricted net position of the Water Fund at the end of the fiscal year was \$2,190,400, an increase of \$1,607,430; and the Sewer Fund was \$1,241,290, an increase of \$49,171.

## General Fund Budgetary Highlights

*Original budget compared to final budget.* During the year the budgetary expenditures were amended by \$4,969,704 for the General Fund. In spite of this, actual expenditures compared to the budget showed a positive variance of \$1,724,720. This was mainly due to the community development project on the Hotel Collins property not beginning in fiscal year 2016 as anticipated and all capital leases funds are yet to be expended.

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

*General Property Taxes \$110,275 was the largest revenue area over budget while the greatest shortfalls occurred in Other Local Taxes \$(124,122), Intergovernmental (Commonwealth) \$(169,757), and Intergovernmental (Federal) \$(579,187).*

The largest shortfall above, Intergovernmental (Federal) is directly impacted by the fact that the Hotel Collins/Maple Street Scape project did not break ground in fiscal year 2016. While significant planning work has been done, the revenue stream from the transportation enhancement grant in the budget was not realized due to this. This is directly offset by the lack of community development expenditures not materializing due to ground breaking not taking place in fiscal year 2016. However, contracts are in place and this long awaited project is slated to begin in early calendar year 2017.

The second largest shortfall above, Intergovernmental (Commonwealth), is attributed to a significant decline in welfare payments coming in from the Commonwealth of Virginia. Actual Revenues as they relate to these items did remain steady with actual expenditures though. The shortfall in other local taxes was driven by Local Sales and use Taxes.

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 bringing in \$1,037,409 during FY 2016.

Review of actual revenues and expenditures indicates that actual revenues for the General Fund were \$16,984,384 and expenditures for the General Fund were \$20,661,585. This variance is driven by Principal Retirement in debt service of \$3,336,534 and lease purchase of fire truck in the amount of \$504,133.

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

## Capital Assets and Debt Administration

**Capital Assets:** The City of Covington's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$51,799,271 (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 \$2,390,603.

## City of Covington's Capital Assets

### Summary of Capital Assets for Governmental Activities (net of depreciation)

As of June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,955,871	\$ 1,955,871	\$ -	\$ -	\$ 1,955,871	\$ 1,955,871
Buildings and improvements	21,501,116	22,212,059	-	-	21,501,116	22,212,059
Improvements other than buildings	-	-	-	-	-	-
Machinery and equipment	2,861,156	2,241,611	-	-	2,861,156	2,241,611
Infrastructure	1,242,679	757,925	18,328,137	19,035,614	19,570,816	19,793,539
Construction in progress	366,660	49,653	5,543,652	3,155,935	5,910,312	3,205,588
Total	\$ 27,927,482	\$ 27,217,119	\$ 23,871,789	\$ 22,191,549	\$ 51,799,271	\$ 49,408,668

Additional information on the City of Covington's capital assets can be found in Note 13 of this report.

## City of Covington's Outstanding Debt

### Summary of Outstanding Debt

For the Year Ended June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation refunding bonds	\$ 13,466,000	\$ 13,897,000	\$ -	\$ -	\$ 13,466,000	\$ 13,897,000
Deferred Amounts						
Bond Premiums	480,275	492,437	637,799	665,529	1,118,074	1,157,966
Bond Discounts	-	(226,198)	-	-	-	(226,198)
Literary Loans	11,645,000	-	-	-	11,645,000	-
Revenue Bonds	-	11,090,000	15,120,376	15,825,376	15,120,376	26,915,376
Capital leases	1,179,175	1,374,709	-	-	1,179,175	1,374,709
Landfill Closure/Post Closure Liability	5,315,930	5,268,514	-	-	5,315,930	5,268,514
Other Obligations (Insurance/Leave)	724,228	679,650	147,933	139,636	872,161	819,286
Net Pension Liability	4,364,257	4,251,795	899,905	876,716	5,264,162	5,128,511
Total	\$ 37,174,865	\$ 36,827,907	\$ 16,806,013	\$ 17,507,257	\$ 53,980,878	\$ 54,335,164

**Debt Administration:** The City of Covington's total debt decreased by \$354,286 during the current fiscal year. The 2007 IDA Lease Revenue bonds were refunded with a Literary Loan (GO) from the VPSA. The Literary rate of 2% compared to the 4.05-4.65% on the revenue bonds will result in total net debt service savings over the remaining life of the loan equal to \$4,822,925. On a net present value basis, savings equal \$3,206,345, or 29.71% of the refunded par.

The *Component Unit School Board* has long-term "Other Obligations" transactions related to compensated absences, Net OPEB obligation, and Net Pensions Liability in the amount of \$9,602,915 as of June 30, 2016. This obligation is an overall decrease of \$88,617 compared to the previous fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the assessed value of taxable real estate. The current debt limitation for the City of Covington is \$28,614,271 with GO debt currently at \$25,591,275. This differential is less than last fiscal year due to the literary loan/lease revenue bond refunding. However, dollar savings outweigh the borrowing limitation related to general obligation bonds.

### **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 2016-2017 Fiscal Year Budget:

- The unemployment rate for the City of Covington fell to 5.1% on June 30, 2016, a decrease from the prior year rate of 6.1% on June 30, 2015. With an increasing number of business permits being granted, the city is hopeful the unemployment rate will continue to decline.
- There were no increases in Business-Type Activity Funds in Water and Wastewater
- Real Estate Taxes per \$100.00 of value were increased 2 cents from \$0.73 to \$0.75.
- Soft Billing for Rescue Squad Services per trend did not meet anticipated revenues and were reduced significantly in the budget as well as local sales and use taxes.
- Health Insurance Costs for the city increased for the 2015-16 budget year by 5.1%, and were covered in the budget by the city. VRS retirement contributions required by the state were reduced and will continue in the 2017-18 Budget as well.
- No unassigned fund balance was taken from 2015-2016 dollars to balance the 2016-2017 Budget.
- No funds were budgeted for refund to West Rock for green machinery and tools legislation that had been paid and refunded back to 2013.
- Public Service Corp Real Estate taxes continue to offset Machinery and Tools tax losses created by "green" legislation. This positive revenue stream growth will be impacted due to depreciation in the next 10 to 15 years unless the value continues to increase.
- The city continues to report in EMMA per its continuing disclosure responsibilities.

### **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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	School Board
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,384,076	\$ 3,368,705	\$ 6,752,781	\$ 650,324
Cash in custody of others	-	-	-	83,538
Investments	46,840	-	46,840	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,481,338	-	2,481,338	-
Other local taxes receivable	155,077	-	155,077	-
Accounts receivable	100,163	708,135	808,298	3,743
Due from component unit	326,706	-	326,706	-
Intergovernmental receivable	757,174	-	757,174	301,954
Inventories	-	-	-	6,062
Prepaid items	-	8,450	8,450	80,142
Restricted assets:				
Cash and cash equivalents	-	1,247,198	1,247,198	-
Investments	-	657,801	657,801	-
Capital assets not being depreciated:				
Land	1,955,871	-	1,955,871	89,663
Construction in progress	366,660	5,543,652	5,910,312	-
Capital assets, net of accumulated depreciation:				
Buildings and improvements	21,501,116	-	21,501,116	1,797,768
Machinery, equipment, and vehicles	2,861,156	-	2,861,156	190,051
Infrastructure	1,242,679	18,328,137	19,570,816	-
Total Assets	\$ 35,178,856	\$ 29,862,078	\$ 65,040,934	\$ 3,203,245
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding	\$ 1,163,548	\$ -	\$ 1,163,548	\$ -
Pension contributions subsequent to measurement date	518,594	106,380	624,974	779,731
Total deferred outflows of resources	\$ 1,682,142	\$ 106,380	\$ 1,788,522	\$ 779,731
<b>LIABILITIES</b>				
Accounts payable	\$ 146,583	\$ 27,332	\$ 173,915	\$ -
Accrued liabilities	208,371	35,049	243,420	775,140
Retainage payable	-	58,339	58,339	-
Customers' deposits	-	75,966	75,966	-
Accrued interest payable	303,887	56,088	359,975	-
Due to primary government	-	-	-	326,706
Deposits held in escrow	15,599	-	15,599	-
Noncurrent liabilities:				
Due within one year	1,155,006	785,854	1,940,860	272,972
Due in more than one year	36,019,859	16,020,159	52,040,018	9,329,943
Total Liabilities	\$ 37,849,305	\$ 17,058,787	\$ 54,908,092	\$ 10,704,761
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred revenue - property taxes	\$ 1,961,098	\$ -	\$ 1,961,098	\$ -
Items related to measurement of net pension liability	562,264	115,938	678,202	1,229,950
	\$ 2,523,362	\$ 115,938	\$ 2,639,300	\$ 1,229,950
<b>NET POSITION</b>				
Net investment in capital assets	\$ 2,320,580	\$ 8,713,076	\$ 11,033,656	\$ 2,077,482
Restricted:				
Capital lease projects	392,296	-	392,296	-
Transportation enhancement grants	121,653	-	121,653	-
Debt Service	-	648,967	648,967	-
Unrestricted	(6,346,198)	3,431,690	(2,914,508)	(10,029,217)
Total Net Position	\$ (3,511,669)	\$ 12,793,733	\$ 9,282,064	\$ (7,951,735)

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, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Component Unit School Board
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
General government administration	\$ 1,917,011	\$ 282	\$ 173,310	\$ -	\$ (1,743,419)	\$ (1,743,419)	
Judicial administration	199,965	-	-	-	(199,965)	(199,965)	
Public safety	3,460,421	315,403	491,340	2,573	(2,651,105)	(2,651,105)	
Public works	2,934,344	871,275	1,034,553	-	(1,028,516)	(1,028,516)	
Health and welfare	1,342,892	-	821,788	-	(521,104)	(521,104)	
Education	3,995,718	-	-	-	(3,995,718)	(3,995,718)	
Parks, recreation, and cultural	1,324,136	86,336	5,000	-	(1,232,800)	(1,232,800)	
Community development	97,984	2,086	-	-	(95,898)	(95,898)	
Interest on long-term debt	1,074,337	-	-	-	(1,074,337)	(1,074,337)	
Total governmental activities	\$ 16,346,808	\$ 1,275,382	\$ 2,525,991	\$ 2,573	\$ (12,542,862)	\$ (12,542,862)	
Business-type activities:							
Water	\$ 1,054,462	\$ 2,113,307	\$ -	\$ 6,517	\$ 1,065,362	\$ 1,065,362	
Sewer	1,473,877	1,659,484	-	-	185,607	185,607	
Total business-type activities	\$ 2,528,339	\$ 3,772,791	\$ -	\$ 6,517	\$ 1,250,969	\$ 1,250,969	
Total primary government	\$ 18,875,147	\$ 5,048,173	\$ 2,525,991	\$ 9,090	\$ (12,542,862)	\$ (11,291,893)	
<b>COMPONENT UNIT:</b>							
School Board	\$ 11,028,486	\$ 97,344	\$ 7,142,194	\$ -	\$ -	\$ -	\$ (3,788,948)
General revenues:							
General property taxes					\$ 8,137,262	\$ -	\$ 8,137,262
Other local taxes:							
Local sales and use taxes					1,192,705	-	1,192,705
Consumers' utility taxes					401,871	-	401,871
Consumption taxes					23,884	-	23,884
Business license taxes					505,037	-	505,037
Motor vehicle licenses					138,148	-	138,148
Bank stock taxes					180,631	-	180,631
Recordation taxes					38,599	-	38,599
Hotel and motel room taxes					17,491	-	17,491
Restaurant food taxes					1,037,409	-	1,037,409
Tobacco taxes					111,353	-	111,353
Unrestricted revenues from use of money and property					26,619	5,745	32,364
Miscellaneous					530,886	12,462	543,348
Payments from the City of Covington					-	-	-
Grants and contributions not restricted to specific programs					884,099	-	884,099
Transfers					402,825	(402,825)	-
Total general revenues and transfers					\$ 13,628,819	\$ (384,618)	\$ 13,244,201
Change in net position							\$ 4,022,292
Net position - beginning					\$ 1,085,957	\$ 866,351	\$ 1,952,308
Net position - ending					(4,597,626)	11,927,382	7,329,756
Net position - ending					\$ (3,511,669)	\$ 12,793,733	\$ 9,282,064
							\$ (7,951,735)

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



City of Covington, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2016

	<u>General</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,383,181	\$ 895	\$ -	\$ 3,384,076
Cash in custody of others				-
Investments	46,840	-	-	46,840
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,481,338	-	-	2,481,338
Other local taxes receivables	155,077	-	-	155,077
Accounts receivable	100,163	-	-	100,163
Due from component unit	326,706	-	-	326,706
Intergovernmental receivable	757,174	-	-	757,174
Total assets	<u>\$ 7,250,479</u>	<u>\$ 895</u>	<u>\$ -</u>	<u>\$ 7,251,374</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 146,583	\$ -	\$ -	\$ 146,583
Accrued liabilities	208,371	-	-	208,371
Deposits held in escrow	15,599	-	-	15,599
Total liabilities	<u>\$ 370,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 370,553</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	\$ 2,454,005	\$ -	\$ -	\$ 2,454,005
	<u>\$ 2,454,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,454,005</u>
<b>FUND BALANCES</b>				
Restricted:				
Transportation enhancement grants	\$ 121,653	\$ -	\$ -	\$ 121,653
Capital lease projects	392,296	-	-	392,296
Committed:				
Debt service funds	-	895	-	895
Unassigned	3,911,972	-	-	3,911,972
Total fund balances	<u>\$ 4,425,921</u>	<u>\$ 895</u>	<u>\$ -</u>	<u>\$ 4,426,816</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,250,479</u>	<u>\$ 895</u>	<u>\$ -</u>	<u>\$ 7,251,374</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, 2016

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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	\$	4,426,816
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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		21,501,116	
Machinery, equipment, and vehicles		2,861,156	
Infrastructure		1,242,679	
Construction in progress		366,660	27,927,482

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	\$	492,907	
Items related to measurement of net pension liability		(562,264)	(69,357)

Pension contributions subsequent to the measurement date will be a reduction in the net pension liability in the next fiscal year and, therefore, are not reported in the funds.

518,594

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	\$	(13,466,000)	
Less: Deferred charges on refunding		1,163,548	
Literary Loans		(11,645,000)	
Capital lease		(1,179,175)	
Unamortized premium		(480,275)	
Compensated absences		(331,792)	
Landfill accrued closure/post-closure costs		(5,315,930)	
Accrued interest payable		(303,887)	
Net OPEB obligation		(392,436)	
Net pension liability		(4,364,257)	(36,315,204)

Net position of governmental activities	\$	(3,511,669)
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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, 2016

	<u>General</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
<b>REVENUES</b>				
General property taxes	\$ 8,060,434	\$ -	\$ -	\$ 8,060,434
Other local taxes	3,647,128	-	-	3,647,128
Permits, privilege fees, and regulatory licenses	11,397	-	-	11,397
Fines and forfeitures	2,934	-	-	2,934
Revenue from the use of money and property	26,472	88	59	26,619
Charges for services	1,261,051	-	-	1,261,051
Miscellaneous	530,886	-	-	530,886
Recovered costs	31,419	-	-	31,419
Intergovernmental:				
Commonwealth	3,294,336	-	-	3,294,336
Federal	118,327	-	-	118,327
Total revenues	<u>\$ 16,984,384</u>	<u>\$ 88</u>	<u>\$ 59</u>	<u>\$ 16,984,531</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,949,443	\$ -	\$ -	\$ 1,949,443
Judicial administration	199,965	-	-	199,965
Public safety	4,007,619	-	-	4,007,619
Public works	3,025,459	-	-	3,025,459
Health and welfare	1,352,724	-	-	1,352,724
Education	3,410,616	-	-	3,410,616
Parks, recreation, and cultural	2,139,810	-	-	2,139,810
Community development	97,984	-	-	97,984
Nondepartmental	22,730	-	-	22,730
Debt service:				
Principal retirement	3,336,534	-	-	3,336,534
Interest and other fiscal charges	1,118,701	24	-	1,118,725
Total expenditures	<u>\$ 20,661,585</u>	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ 20,661,609</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (3,677,201)</u>	<u>\$ 64</u>	<u>\$ 59</u>	<u>\$ (3,677,078)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 1,415,628	\$ -	\$ -	\$ 1,415,628
Transfers out	-	-	(1,012,803)	(1,012,803)
Issuance of general obligation refunding bonds	2,410,000	-	-	2,410,000
Payment to refunded bond escrow agent	11,645,000	-	-	11,645,000
Payment to refunding bond escrow agent	(11,617,354)	-	-	(11,617,354)
Total other financing sources (uses)	<u>\$ 3,853,274</u>	<u>\$ -</u>	<u>\$ (1,012,803)</u>	<u>\$ 2,840,471</u>
Net change in fund balances	\$ 176,073	\$ 64	\$ (1,012,744)	\$ (836,607)
Fund balances - beginning	<u>4,249,848</u>	<u>831</u>	<u>1,012,744</u>	<u>5,263,423</u>
Fund balances - ending	<u>\$ 4,425,921</u>	<u>\$ 895</u>	<u>\$ -</u>	<u>\$ 4,426,816</u>

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

City of Covington, Virginia  
Reconciliation of Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2016

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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	\$	(836,607)
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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 capital outlays exceeded the depreciation in the current period.

Capital asset additions	\$ 1,928,128	
Depreciation expense	(1,217,765)	710,363

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

Change in unavailable revenue - property taxes and other local taxes	\$ 76,828	
Change in deferred inflows related to the measurement of the net pension liability	378,053	454,881

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of general obligation bonds	\$ (2,410,000)	
Less: Payment to bond escrow agent	11,596,353	
Issuance of bond anticipation notes	(11,645,000)	
(Increase) decrease in landfill closure and post-closure monitoring costs	(47,416)	
Principal Payments:		
General obligation bonds	2,841,000	
Lease revenue bond	300,000	
Capital lease	195,534	830,471

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	\$ (16,381)	
(Increase) decrease in net OPEB obligation	(28,197)	
Amortization of bond discount	(4,116)	
Amortization of bond premiums	12,162	
Amortization of deferred amount on refundings	(99,996)	
(Increase) decrease in accrued interest payable	157,340	
Change in net pension liability	(112,462)	
Change in deferred outflows related to pension payments subsequent to the measurement date	18,499	(73,151)

Change in net position of governmental activities	\$	<u>1,085,957</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, 2016

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,872,905	\$ 1,495,800	\$ 3,368,705
Accounts receivable, net of allowance for uncollectibles	448,704	259,431	708,135
Prepaid expenses	-	8,450	8,450
Restricted current assets:			
Cash and cash equivalents	922,655	324,543	1,247,198
Investments	657,801	-	657,801
Total current assets	<u>\$ 3,902,065</u>	<u>\$ 2,088,224</u>	<u>\$ 5,990,289</u>
Noncurrent assets:			
Capital assets:			
Utility plant in service	\$ 8,334,978	\$ 21,623,084	\$ 29,958,062
Accumulated depreciation	(5,566,535)	(6,063,390)	(11,629,925)
Construction in progress	5,543,652	-	5,543,652
Total capital assets	<u>\$ 8,312,095</u>	<u>\$ 15,559,694</u>	<u>\$ 23,871,789</u>
Total assets	<u>\$ 12,214,160</u>	<u>\$ 17,647,918</u>	<u>\$ 29,862,078</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension contributions subsequent to the measurement date	\$ 54,941	\$ 51,439	\$ 106,380
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 27,332	\$ -	\$ 27,332
Wages payable	18,582	16,467	35,049
Customers' deposits	42,397	33,569	75,966
Accrued interest payable	56,088	-	56,088
Retainage payable	58,339	-	58,339
Compensated absences - current portion	25,414	22,710	48,124
Bonds payable - current portion	162,730	575,000	737,730
Total current liabilities	<u>\$ 390,882</u>	<u>\$ 647,746</u>	<u>\$ 1,038,628</u>
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 5,615,069	\$ 9,405,376	\$ 15,020,445
Net OPEB obligation	45,905	37,863	83,768
Compensated absences	8,471	7,570	16,041
Net pension liability	466,520	433,385	899,905
Total noncurrent liabilities	<u>\$ 6,135,965</u>	<u>\$ 9,884,194</u>	<u>\$ 16,020,159</u>
Total liabilities	<u>\$ 6,526,847</u>	<u>\$ 10,531,940</u>	<u>\$ 17,058,787</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Items related to measurement of net pension liability	\$ 60,103	\$ 55,835	\$ 115,938
Total deferred inflows of resources	<u>\$ 60,103</u>	<u>\$ 55,835</u>	<u>\$ 115,938</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 3,133,758	\$ 5,579,318	\$ 8,713,076
Restricted for debt service and bond covenants	357,993	290,974	648,967
Unrestricted	2,190,400	1,241,290	3,431,690
Total net position	<u>\$ 5,682,151</u>	<u>\$ 7,111,582</u>	<u>\$ 12,793,733</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, 2016

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>OPERATING REVENUES</b>			
Charges for services:			
Water revenues	\$ 2,097,966	\$ -	\$ 2,097,966
Sewer revenues	-	1,643,879	1,643,879
Penalties	15,341	15,605	30,946
Miscellaneous	3,612	8,850	12,462
Total operating revenues	<u>\$ 2,116,919</u>	<u>\$ 1,668,334</u>	<u>\$ 3,785,253</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	\$ 371,723	\$ 333,675	\$ 705,398
Fringes	174,315	160,608	334,923
Contracted services	39,689	101,525	141,214
Other charges	289,256	307,632	596,888
Purchase of equipment	4,856	18,328	23,184
Lease/rent of equipment	1,092	378	1,470
OPEB expense	2,840	2,567	5,407
Depreciation	170,691	549,164	719,855
Total operating expenses	<u>\$ 1,054,462</u>	<u>\$ 1,473,877</u>	<u>\$ 2,528,339</u>
Operating income (loss)	<u>\$ 1,062,457</u>	<u>\$ 194,457</u>	<u>\$ 1,256,914</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	<u>\$ 5,115</u>	<u>\$ 630</u>	<u>\$ 5,745</u>
Income (loss) before contributions and transfers	<u>\$ 1,067,572</u>	<u>\$ 195,087</u>	<u>\$ 1,262,659</u>
Capital contributions and construction grants	\$ 6,517	\$ -	\$ 6,517
Transfers in	-	114,727	114,727
Transfers out	<u>(283,375)</u>	<u>(234,177)</u>	<u>(517,552)</u>
Change in net position	<u>\$ 790,714</u>	<u>\$ 75,637</u>	<u>\$ 866,351</u>
Net position - beginning	4,891,437	7,035,945	11,927,382
Net position - ending	<u><u>\$ 5,682,151</u></u>	<u><u>\$ 7,111,582</u></u>	<u><u>\$ 12,793,733</u></u>

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, 2016

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 2,026,279	\$ 1,683,085	\$ 3,709,364
Payments to suppliers	(335,034)	(436,358)	(771,392)
Payments to employees	(571,031)	(520,436)	(1,091,467)
Net cash provided by (used for) operating activities	\$ 1,120,214	\$ 726,291	\$ 1,846,505
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	\$ (283,375)	\$ (234,177)	\$ (517,552)
Transfers from other funds	-	114,727	114,727
Net cash provided by (used for) noncapital financing activities	\$ (283,375)	\$ (119,450)	\$ (402,825)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of utility plant	\$ (3,268,002)	\$ -	\$ (3,268,002)
Principal payments on bonds	(130,000)	(575,000)	(705,000)
Capital grants	6,517	-	6,517
Interest payments	(227,034)	-	(227,034)
Net cash provided by (used for) capital and related financing activities	\$ (3,618,519)	\$ (575,000)	\$ (4,193,519)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	\$ 5,115	\$ 630	\$ 5,745
Net increase (decrease) in cash and cash equivalents	\$ (2,776,565)	\$ 32,471	\$ (2,744,094)
Cash and cash equivalents - beginning	6,229,926	1,787,872	8,017,798
Cash and cash equivalents - ending	\$ 3,453,361	\$ 1,820,343	\$ 5,273,704
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>			
Operating income (loss)	\$ 1,062,457	\$ 194,457	\$ 1,256,914
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	\$ 170,691	\$ 549,164	\$ 719,855
Net OPEB obligation	2,840	2,567	5,407
(Increase) decrease in accounts receivable	(99,167)	8,751	(90,416)
(Increase) decrease in prepaid expenses	-	(8,450)	(8,450)
(Increase) decrease in deferred outflows of resources	(1,483)	(1,778)	(3,261)
Increase (decrease) in customer deposits	8,527	6,000	14,527
Increase (decrease) in accounts payable	(141)	(45)	(186)
Increase (decrease) in wages payable	2,859	1,132	3,991
Increase (decrease) in compensated absences	2,023	867	2,890
Increase (decrease) in net pension liability	12,021	11,168	23,189
Increase (decrease) in deferred inflows of resources	(40,413)	(37,542)	(77,955)
Total adjustments	\$ 57,757	\$ 531,834	\$ 589,591
Net cash provided by (used for) operating activities	\$ 1,120,214	\$ 726,291	\$ 1,846,505

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

CITY OF COVINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

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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 unit, 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 unit. It is reported in a separate column to emphasize that it is legally separate from the City.

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

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

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

The City participates in the Charles Pinckney Jones Memorial Library. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City's contribution during fiscal year 2016 was \$115,098.

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, 2016

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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 (governmental 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 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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

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

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 *nonoperating* 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 nonoperating 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").

2. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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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)

3. Receivables and Payables

Activity between funds that is 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). All other outstanding balances between funds are reported as “advances to/from other funds” (i.e., the noncurrent portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$62,948 at June 30, 2016 and is comprised solely of property taxes.

4. 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.

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 acquisition value at the date of donation.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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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)

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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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

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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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)

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 two items that qualify for reporting in this category. One item 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. The other item is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, reference the pension note.

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 two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup>, and amounts prepaid on the 2<sup>nd</sup> half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup> and amounts prepaid on the 2<sup>nd</sup> half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments and changes in proportion and differences between employer contributions and proportionate share of contributions. For more detailed information on these items, reference the pension note.

11. Pensions

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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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)

12. 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.

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.

13. 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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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.
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, 2016, there were no departments that had expenditures in excess of appropriations.

C. Deficit Fund Equity

At June 30, 2016, there were no funds with deficit fund equity.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 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, 2016 and June 30, 2015, the City had 1,176 shares of MetLife Trust stock valued at a \$39.83 and \$55.99 per share for a total value of \$46,840 and \$65,844, respectively.

The City's rated debt investments as of June 30, 2016 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)	\$ 657,801

External Investment Pools

Interest Rate Risk:		
Investment type	Fair Value	Less than 1 yr
State Non-arbitrage Pool (SNAP)	\$ 657,801	\$ 657,801

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. In May 2016, the Board voted to convert the SNAP fund to an LGIP structure, which would be managed in conformance with GASB 79. On October 3, 2016 the Prime Series became a government money market fund and the name was changed to Government Select Series. The Government Select Series has a policy of investing at least 99.5% of its assets in cash, U.S. government securities (including securities issued or guaranteed by the U.S. Government of its agencies or instrumentalities) and/or repurchase agreements that are collateralized fully.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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

The value of the positions in the external investment pools (State Non-Arbitrage Pool) is the same as the value of the pool shares. SNAP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

Note 4 - Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The City maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

(If there has been a change in valuation technique that has a significant effect on the result (e.g., changing from an expected cash flow technique or the use of an additional valuation technique), document that specific change, and the reason(s) for making it.)

The City has the following recurring fair value measurements as of June 30, 2016:

Investment	6/30/2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Metlife Stock	\$ 46,840	\$ 46,840	\$ -	\$ -

## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 5 - Due from Other Governmental Units:

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

	Primary Government <u>Governmental</u>	Component Unit <u>School Board</u>
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 211,590	\$ -
State sales tax	-	173,392
Non-categorical aid	321,087	-
Categorical aid - shared expenses	11,285	-
Categorical aid - Comprehensive Services Act	178,548	-
Categorical aid - VPA	3,328	-
Categorical aid - other	9,388	-
<u>Federal Government:</u>		
Categorical aid - VPA	2,592	-
Categorical aid - other	19,356	128,562
Totals	<u>\$ 757,174</u>	<u>\$ 301,954</u>

Note 6 - Interfund Transfers:

Interfund transfers for the year ended June 30, 2016, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 1,415,628	\$ -
Water Fund	-	283,375
Sewer Fund	114,727	234,177
School Construction Fund	-	1,012,803
Total	<u>\$ 1,530,355</u>	<u>\$ 1,530,355</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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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 7 - Long-Term Obligations:Primary Government - Governmental Activities Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2016:

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
General obligation bonds	\$ 13,897,000	\$ 2,410,000	\$ (2,841,000)	\$ 13,466,000
Deferred amounts:				
Premium	492,437	-	(12,162)	480,275
Discounts	(226,198)	-	226,198	-
Literary loans	-	11,645,000	-	11,645,000
Lease revenue bond	11,090,000	-	(11,090,000)	-
Capital lease (note 7)	1,374,709	-	(195,534)	1,179,175
Landfill closure/ post-closure liability	5,268,514	47,416	-	5,315,930
Compensated absences	315,411	252,939	(236,558)	331,792
Net OPEB obligation	364,239	70,828	(42,631)	392,436
Net pension liability	4,251,795	1,646,057	(1,533,595)	4,364,257
Total	<u>\$ 36,827,907</u>	<u>\$ 16,072,240</u>	<u>\$ (15,725,282)</u>	<u>\$ 37,174,865</u>

Advance and current refundings:

The City issued \$11,645,000 of literary fund loans to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$10,790,000 of lease revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$1,028,434. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 23 years by \$4,822,925 and resulted in an economic gain of \$3,206,345.

In addition, the City issued \$2,410,000 of general obligation refunding bonds for a current refunding of \$2,357,000 of general obligation refunding bonds of the City. The refunding was undertaken to reduce total future debt service payments. The reacquisition price was equal to the net carrying amount of the old debt. The transaction also resulted in an economic gain of \$190,988 and a reduction of \$251,457 in future debt service payments.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 7 - Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness: (Continued)

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

Year Ending June 30,	General Obligation Bonds		Literary Loans	
	Principal	Interest	Principal	Interest
2017	\$ 469,000	\$ 521,905	\$ 425,000	\$ 232,900
2018	491,000	501,944	435,000	224,400
2019	518,000	480,800	445,000	215,700
2020	544,000	458,471	455,000	206,800
2021	570,000	434,983	460,000	197,700
2022-2026	3,252,000	1,852,323	2,450,000	846,500
2027-2031	2,807,000	1,257,917	2,705,000	591,500
2032-2036	650,000	982,236	2,990,000	309,700
2037-2041	4,165,000	607,513	1,280,000	38,500
Totals	\$ <u>13,466,000</u>	\$ <u>7,098,092</u>	\$ <u>11,645,000</u>	\$ <u>2,863,700</u>

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 7 - Long-Term Obligations: (Continued)Primary Government - Governmental Activities Indebtedness: (Continued)

## Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:							
GO Refunding Bond	2.47%	9/29/2015	2028	\$159,000-\$210,000 a+	\$ 2,410,000	\$ 2,211,000	\$ 159,000
VPSA GO Refunding Bond	5.05%-4.30%	11/21/2013	2041	\$90,000-\$1,580,000 a+	11,630,000	11,255,000	310,000
Total General Obligation Bonds						<u>\$ 13,466,000</u>	<u>\$ 469,000</u>
Literary Loans							
Literary Loan	2.00%	2/16/2016	2038	\$425,000-\$645,000 a+	\$ 11,645,000	<u>\$ 11,645,000</u>	<u>\$ 425,000</u>
Deferred Amount:							
Unamortized Premium					\$ 496,278	<u>\$ 480,275</u>	<u>\$ 12,162</u>
Capital Leases:							
Mini Excavator Truck	1.55%	4/30/2015	2018	\$17,331 a	\$ 50,611	\$ 34,000	\$ -
Fire Truck	1.84%	4/30/2015	2022	\$77,524 a	506,992	438,483	-
Garbage Truck	1.84%	4/30/2015	2022	\$24,989 a	163,421	141,338	-
Financial Software	1.84%	4/30/2015	2022	\$99,955 a	653,685	565,354	-
Total Capital Leases						<u>\$ 1,179,175</u>	<u>\$ -</u>
Other Obligations:							
Compensated Absences						\$ 331,792	\$ 248,844
Net OPEB Obligation						392,436	-
Landfill Closure/Post-closure liability						5,315,930	-
Net pension liability						4,364,257	-
Total Other Obligations						<u>\$ 10,404,415</u>	<u>\$ 248,844</u>
Total Long-Term Obligations						<u>\$ 37,174,865</u>	<u>\$ 1,155,006</u>

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

(a) - annual installment including principal and interest

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 7 - Long-Term Obligations: (Continued)Primary Government - Business-type Activities Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2016:

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
Revenue bonds	\$ 15,825,376	\$ -	\$ (705,000)	\$ 15,120,376
Deferred amount:				
Premium	665,529	-	(27,730)	637,799
Net OPEB obligation	78,361	13,577	(8,170)	83,768
Compensated absences	61,275	48,846	(45,956)	64,165
Net pension liability	876,716	339,414	(316,225)	899,905
Total	<u>\$ 17,507,257</u>	<u>\$ 401,837</u>	<u>\$ (1,103,081)</u>	<u>\$ 16,806,013</u>

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
2017	\$ 135,000	\$ 222,993	\$ 575,000	\$ -
2018	135,000	218,374	575,000	-
2019	145,000	211,999	575,000	-
2020	150,000	205,265	575,000	-
2021	160,000	197,796	575,000	-
2022-2026	895,000	883,256	2,875,000	-
2027-2031	1,125,000	659,341	2,875,000	-
2032-2036	1,400,000	376,854	1,355,376	-
2037-2039	995,000	68,759	-	-
Totals	<u>\$ 5,140,000</u>	<u>\$ 3,044,637</u>	<u>\$ 9,980,376</u>	<u>\$ -</u>

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 7 - Long-Term Obligation: (Continued)Primary Government - Business-type Activities Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bonds:							
Revenue Bond	0.00%	12/1/2010	2031	\$250,000 a	\$ 5,000,000	\$ 3,994,251	\$ 250,000
Revenue Bond	0.00%	5/10/2012	2032	\$162,500-325,000 a	6,500,000	5,986,125	325,000
Revenue Bond	2.04-4.83%	4/4/2013	2039	\$125,000-345,000 a+	5,395,000	5,140,000	135,000
Total Revenue Bonds						\$ 15,120,376	\$ 710,000
Deferred Amount:							
Unamortized Premium					\$ 720,990	\$ 637,799	\$ 27,730
Other Obligations:							
Compensated Absences						\$ 64,165	\$ 48,124
Net OPEB Obligation						83,768	-
Net pension liability						899,905	-
Total Other Obligations						\$ 1,047,838	\$ 48,124
Total Long-Term Obligations						\$ 16,806,013	\$ 785,854

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

(a) - annual principal installments shown; no interest

Note 8 - Capital Lease:Primary Government:

The City has entered into a lease agreement as lessee for the financing of the acquisition of a mini excavator truck, fire truck, garbage truck, and financial software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date. As of June 30, 2016, the assets related to the capital leases and accumulated depreciation are as follows:

	Mini Excavator	Fire Truck	Garbage Truck	Financial Software(1)	Total
Cost	\$ 50,325	\$ 504,134	\$ 162,500	\$ 317,007	\$ 1,033,966
Accumulated Depreciation	(7,887)	(41,551)	(2,894)	-	(52,332)
Net Book Value	\$ 42,438	\$ 462,583	\$ 159,606	\$ 317,007	\$ 981,634

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 8 - Capital Lease: (Continued)

Primary Government: (Continued)

The future minimum lease obligation and the net present value of minimum lease payments as of June 30, 2016, were as follows:

Fiscal Year Ended	Capital Leases
2017	\$ 219,798
2018	219,798
2019	202,468
2020	202,468
2021	202,468
2022	202,467
Total minimum lease payments	\$ 1,249,467
Less: amount representing interest	(70,292)
Present value of minimum lease payments	<u>\$ 1,179,175</u>

Note 9 - 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, 2016:

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
Compensated absences	\$ 363,933	\$ 272,980	\$ (272,950)	\$ 363,963
Net OPEB obligation	225,200	78,400	(45,700)	257,900
Net pension liability	9,102,399	2,085,220	(2,206,567)	8,981,052
	<u>\$ 9,691,532</u>	<u>\$ 2,436,600</u>	<u>\$ (2,525,217)</u>	<u>\$ 9,602,915</u>

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 9 - Long-Term Obligations-Component Unit School Board:

Discretely Presented Component Unit - School Board-Indebtedness:

Details of long-term indebtedness:

	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:		
Compensated absences	\$ 363,963	\$ 272,972
Net OPEB obligation	257,900	-
Net pension liability	8,981,052	-
Total Long-term Obligations	<u>\$ 9,602,915</u>	<u>\$ 272,972</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

**Note 10 - Pension Plan:***Plan Description*

All full-time, salaried permanent employees of the City and (nonprofessional) employees of public school divisions are automatically covered by VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b> Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2</b> Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> </ul>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 10 - Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.) <ul style="list-style-type: none"> <li>In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>Political subdivision employees*</li> <li>School division employees</li> <li>Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

Note 10 - Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Hybrid Opt-In Election (Cont.)</b> Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Hybrid Opt-In Election (Cont.)</b> Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p><b>*Non-Eligible Members (Cont.)</b> Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p><b>Retirement Contributions</b> A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

Note 10 - Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <u><b>Defined Benefit Component:</b></u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u><b>Defined Contributions Component:</b></u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

Note 10 - Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b> Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 10 - Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.)  <u>Defined Contributions Component: (Cont.)</u>            Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b>            The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p><b>Calculating the Benefit</b>            See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b>  <u>Defined Benefit Component:</u>            See definition under Plan 1</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

**Note 10 - Pension Plan: (Continued)***Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<b>Calculating the Benefit (Cont.)</b> An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	<b>Calculating the Benefit (Cont.)</b>	<b>Calculating the Benefit (Cont.)</b> <u><b>Defined Contribution Component:</b></u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
<b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
<b>Service Retirement Multiplier</b> <b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.  <b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.  <b>Political subdivision hazardous duty employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	<b>Service Retirement Multiplier</b> <b>VRS:</b> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.  <b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.  <b>Political subdivision hazardous duty employees:</b> Same as Plan 1.	<b>Service Retirement Multiplier</b> <u><b>Defined Benefit Component:</b></u> <b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.  For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.  <b>Sheriffs and regional jail superintendents:</b> Not applicable.  <b>Political subdivision hazardous duty employees:</b> Not applicable.  <b>Defined Contribution Component:</b> Not applicable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

Note 10 - Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

Note 10 - Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p><u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 10 - Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> </ul> <p>The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</p> <ul style="list-style-type: none"> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

Note 10 - Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <p><u>Defined Contribution Component:</u> Not applicable.</p>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 10 - Pension Plan: (Continued)*Plan Description (Continued)*

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/2015-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

*Employees Covered by Benefit Terms*

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Primary Government	Component Unit School Board Nonprofessional
Inactive members or their beneficiaries currently receiving benefits	88	20
Inactive members:		
Vested inactive members	4	4
Non-vested inactive members	13	3
Inactive members active elsewhere in VRS	13	8
Total inactive members	30	15
Active members	97	25
Total covered employees	215	60

*Contributions*

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been 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 5.00% member contribution. This could be phased in over a period of 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.

The City's contractually required contribution rate for the year ended June 30, 2016 was 16.98% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 10 - Pension Plan: (Continued)

*Contributions (Continued)*

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$624,974 and \$600,630 for the years ended June 30, 2016 and June 30, 2015, respectively.

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2016 was 16.03% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$58,731 and \$76,341 for the years ended June 30, 2016 and June 30, 2015, respectively.

*Net Pension Liability*

The City's and Component Unit School Board's (nonprofessional) net pension liabilities were measured as of June 30, 2015. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

*Actuarial Assumptions - General Employees*

The total pension liability for General Employees in the City's and Component Unit School Board's (nonprofessional) Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 10 - Pension Plan: (Continued)

*Actuarial Assumptions - General Employees (Continued)*

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 10 - Pension Plan: (Continued)

*Actuarial Assumptions - Public Safety Employees*

The total pension liability for Public Safety employees in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 10 - Pension Plan: (Continued)

*Actuarial Assumptions - Public Safety Employees (Continued)*

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 10 - Pension Plan: (Continued)*Long-Term Expected Rate of Return*

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 10 - Pension Plan: (Continued)*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the City and Component Unit School Board (nonprofessional) Retirement Plans will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Changes in Net Pension Liability*

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 23,414,644	\$ 18,286,135	\$ 5,128,509
Changes for the year:			
Service cost	\$ 381,110	\$ -	\$ 381,110
Interest	1,592,529	-	1,592,529
Differences between expected and actual experience	(248,359)	-	(248,359)
Contributions - employer	-	600,630	(600,630)
Contributions - employee	-	177,538	(177,538)
Net investment income	-	823,292	(823,292)
Benefit payments, including refunds of employee contributions	(1,328,466)	(1,328,466)	-
Administrative expenses	-	(11,662)	11,662
Other changes	-	(171)	171
Net changes	\$ 396,814	\$ 261,161	\$ 135,653
Balances at June 30, 2015	\$ 23,811,458	\$ 18,547,296	\$ 5,264,162

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 10 - Pension Plan: (Continued)*Changes in Net Pension Liability*

	Component Unit-School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 2,896,032	\$ 2,261,633	\$ 634,399
Changes for the year:			
Service cost	\$ 62,270	\$ -	\$ 62,270
Interest	195,457	-	195,457
Differences between expected and actual experience	(2,890)	-	(2,890)
Contributions - employer	-	76,341	(76,341)
Contributions - employee	-	23,812	(23,812)
Net investment income	-	101,524	(101,524)
Benefit payments, including refunds of employee contributions	(207,569)	(207,569)	-
Administrative expenses	-	(1,474)	1,474
Other changes	-	(19)	19
Net changes	\$ 47,268	\$ (7,385)	\$ 54,653
Balances at June 30, 2015	\$ 2,943,300	\$ 2,254,248	\$ 689,052

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the City and Component Unit School Board (nonprofessional) using the discount rate of 7.00%, as well as what the City's and Component Unit School Board's (nonprofessional) net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	(7.00%)	(8.00%)
City			
Net Pension Liability (Asset)	\$ 8,072,320	\$ 5,264,162	\$ 2,895,621
Component Unit School Board (nonprofessional)			
Net Pension Liability	997,808	689,052	425,972

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

Note 10 - Pension Plan: (Continued)*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended June 30, 2016, the City and Component Unit School Board (nonprofessional) recognized pension expense of \$280,277 and \$55,579, respectively. At June 30, 2016, the City and Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government		Component Unit-School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 177,195	\$ -	\$ 1,808
Change in assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	501,007	-	62,142
Employer contributions subsequent to the measurement date	624,974	-	58,731	-
Total	<u>\$ 624,974</u>	<u>\$ 678,202</u>	<u>\$ 58,731</u>	<u>\$ 63,950</u>

\$624,974 and \$58,731 reported as deferred outflows of resources related to pensions resulting from the City's and Component Unit School Board's (nonprofessional) contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	Primary Government	Component Unit School Board (nonprofessional)
2017	\$ (267,303)	\$ (25,327)
2018	(267,303)	(24,971)
2019	(231,011)	(24,246)
2020	87,415	10,594
Thereafter	-	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 10 - Pension Plan: (Continued)

Component Unit School Board (professional)

*Plan Description*

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system). Additional information regarding the plan description can be found in the first section of this note.

*Contributions*

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been 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 5.00% member contribution. This could be phased in over a period of 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.

Each School Division's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014. The actuarial rate for the Teacher Retirement Plan was 18.20%. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board were \$721,000 and \$710,000 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the school division reported a liability of \$8,292,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was 0.06588% as compared to 0.07007% at June 30, 2014.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 10 - Pension Plan: (Continued)Component Unit School Board (professional) (Continued)*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

For the year ended June 30, 2016, the school division recognized pension expense of \$481,000. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 114,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	508,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	544,000
Employer contributions subsequent to the measurement date	721,000	-
Total	\$ 721,000	\$ 1,166,000

\$721,000 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2017	\$ (351,000)
2018	(351,000)
2019	(351,000)
2020	(49,000)
Thereafter	(64,000)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 10 - Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

*Actuarial Assumptions*

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.95%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females set back 5 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 3 years

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 10 - Pension Plan: (Continued)Component Unit School Board (professional) (Continued)*Long-Term Expected Rate of Return*

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

\* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 10 - Pension Plan: (Continued)Component Unit School Board (professional) (Continued)*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the school division for the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, school divisions are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the school division's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$ 12,134,000	\$ 8,292,000	\$ 5,129,000

*Pension Plan Fiduciary Net Position*

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 201 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-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, 2016

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**Note 11 - 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 2016, the City and School Board contributed \$50,800, and \$45,700, respectively, for current premiums and prefunding amounts.

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

**C. Annual OPEB Cost and Net OPEB Obligation**

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

	Primary Government				Component Unit School Board
	General	Water	Sewer	Total	
Annual required contribution	\$ 71,416	\$ 7,191	\$ 6,502	\$ 85,109	\$ 78,800
Interest on net OPEB obligation	14,854	1,496	1,352	17,702	9,000
Adjustment to annual required contribution	(15,443)	(1,557)	(1,407)	(18,407)	(9,400)
Annual OPEB cost (expense)	70,827	7,130	6,447	84,404	78,400
Contributions made	(42,630)	(4,290)	(3,880)	(50,800)	(45,700)
Increase in net OPEB obligation	28,197	2,840	2,567	33,604	32,700
Net OPEB obligation - beginning of year	364,239	43,065	35,296	442,600	225,200
Net OPEB obligation - end of year	\$ 392,436	\$ 45,905	\$ 37,863	\$ 476,204	\$ 257,900

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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

C. Annual OPEB Cost and Net OPEB Obligation

The City and City School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and two preceding years were as follows:

Entity	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
City	6/30/2016	\$ 84,404	60.19%	\$ 476,204
City	6/30/2015	81,600	46.57%	442,600
City	6/30/2014	62,500	50.40%	399,000
School Board	6/30/2016	\$ 78,400	58.29%	\$ 257,900
School Board	6/30/2015	69,400	78.24%	225,200
School Board	6/30/2014	68,200	85.19%	210,100

D. Funded Status and Funding Progress

City:

As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$911,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$3,623,800, and ratio of the UAAL to the covered payroll was 25.14%.

School Board:

As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$988,500, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,328,600 and ratio of the UAAL to the covered payroll was 18.55%.

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2014, City actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return per annum. An annual healthcare cost trend rate of 7.0 percent initially, reduced by decrements of 0.5 percent until an ultimate rate of 5 percent is reached. The UAAL is being amortized as a level percentage over the remaining amortization period, which at June 30, 2014, was 30 years.

In the July 1, 2015, School Board actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return per annum. An annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements of 0.5 percent until an ultimate rate of 5 percent is reached. The UAAL is being amortized as a level percentage over the remaining amortization period, which at June 30, 2015, was 30 years.

Note 12 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit:

A. Plan Description

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 12 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)

B. Funding Policy

Primary Government:

As a participating local political subdivision, the City is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2016 was 0.51% 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 2016 was 0.72% 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.

For 2016, the City's contribution of \$17,149 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 2016 and the two preceding years are as follows:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Primary Government:				
City	6/30/2016	\$ 17,149	100.00%	\$ -
	6/30/2015	16,990	100.00%	-
	6/30/2014	16,044	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.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 12 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)

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

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

For 2016, the School Board's contribution of \$3,895 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 2016 and the two preceding years are as follows:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Discretely Presented Component Unit				
School Board (nonprofessional)	6/30/2016	\$ 3,895	100.00%	\$ -
	6/30/2015	5,286	100.00%	-
	6/30/2014	4,147	100.00%	-

## D. Funded Status and Funding Progress

Primary Government:

The funded status of the plan as of June 30, 2015, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 316,437
Actuarial value of plan assets	\$ 99,148
Unfunded actuarial accrued liability (UAAL)	\$ 217,289
Funded ratio (actuarial value of plan assets/AAL)	31.33%
Covered payroll (active plan members)	\$ 3,376,579
UAAL as a percentage of covered payroll	6.44%

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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**Note 12 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)**

**D. Funded Status and Funding Progress (Continued)**

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

The funded status of the plan as of June 30, 2015, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	60,798
Actuarial value of plan assets	\$	14,053
Unfunded actuarial accrued liability (UAAL)	\$	46,745
Funded ratio (actuarial value of plan assets/AAL)		23.11%
Covered payroll (active plan members)	\$	464,175
UAAL as a percentage of covered payroll		10.07%

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

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

**E. Actuarial Methods and Assumptions**

Primary Government:

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

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, 2015 was 19-28 years.

Note 12 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)

E. Actuarial Methods and Assumptions (Continued)

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, 2015 was 19-28 years.

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

Professional Employees - Discretely Presented Component Unit School Board

A. Plan Description

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

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

B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.06% of annual covered payroll. The School Board's contributions to VRS for the year ended June 30, 2016 was \$55,088 and equaled the required contributions.

## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 13 - Capital Assets:

Capital asset activity for the year ended June 30, 2016 was as follows:

## Primary Government:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,955,871	\$ -	\$ -	\$ 1,955,871
Construction in progress	49,653	374,173	(57,166)	366,660
Total capital assets not being depreciated	<u>\$ 2,005,524</u>	<u>\$ 374,173</u>	<u>\$ (57,166)</u>	<u>\$ 2,322,531</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 30,410,982	\$ 55,977	\$ -	\$ 30,466,959
Infrastructure	1,193,717	539,662	-	1,733,379
Machinery and equipment	7,850,378	1,015,482	-	8,865,860
Total capital assets being depreciated	<u>\$ 39,455,077</u>	<u>\$ 1,611,121</u>	<u>\$ -</u>	<u>\$ 41,066,198</u>
Accumulated depreciation:				
Buildings and improvements	\$ (8,198,923)	\$ (766,920)	\$ -	\$ (8,965,843)
Infrastructure	(435,792)	(54,908)	-	(490,700)
Machinery and equipment	(5,608,767)	(395,937)	-	(6,004,704)
Total accumulated depreciation	<u>\$ (14,243,482)</u>	<u>\$ (1,217,765)</u>	<u>\$ -</u>	<u>\$ (15,461,247)</u>
Total capital assets being depreciated, net	<u>\$ 25,211,595</u>	<u>\$ 393,356</u>	<u>\$ -</u>	<u>\$ 25,604,951</u>
Governmental activities capital assets, net	<u>\$ 27,217,119</u>	<u>\$ 767,529</u>	<u>\$ (57,166)</u>	<u>\$ 27,927,482</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 3,155,935	\$ 2,387,717	\$ -	\$ 5,543,652
Capital assets, being depreciated:				
Infrastructure	\$ 29,945,684	\$ 12,378	\$ -	\$ 29,958,062
Accumulated depreciation:				
Infrastructure	\$ (10,910,070)	\$ (719,855)	\$ -	\$ (11,629,925)
Total capital assets being depreciated, net	<u>\$ 19,035,614</u>	<u>\$ (707,477)</u>	<u>\$ -</u>	<u>\$ 18,328,137</u>
Business-type activities capital assets, net	<u><u>\$ 22,191,549</u></u>	<u><u>\$ 1,680,240</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 23,871,789</u></u>

## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016Note 13 - Capital Assets: (Continued)

## Primary Government: (Continued)

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

## Governmental activities:

General government administration	\$	3,792
Public safety		254,565
Public works		219,100
Education		585,102
Parks, recreation, and cultural		155,206

Total depreciation expense-governmental activities	\$	<u>1,217,765</u>
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## Business-type activities:

Water and sewer funds	\$	<u>719,855</u>
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Total depreciation expense-Primary Government	\$	<u><u>1,937,620</u></u>
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Discretely Presented Component Unit

Capital asset activity for the School Board for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ <u>89,663</u>	\$ -	\$ -	\$ <u>89,663</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,607,709	\$ 48,145	\$ -	\$ 3,655,854
Machinery and equipment	1,091,272	7,018	-	1,098,290
Total capital assets being depreciated	\$ <u>4,698,981</u>	\$ <u>55,163</u>	\$ -	\$ <u>4,754,144</u>
Accumulated depreciation:				
Buildings and improvements	\$ (1,763,625)	\$ (94,461)	\$ -	\$ (1,858,086)
Machinery and equipment	(846,031)	(62,208)	-	(908,239)
Total accumulated depreciation	\$ <u>(2,609,656)</u>	\$ <u>(156,669)</u>	\$ -	\$ <u>(2,766,325)</u>
Total capital assets being depreciated, net	\$ <u>2,089,325</u>	\$ <u>(101,506)</u>	\$ -	\$ <u>1,987,819</u>
Governmental activities capital assets, net	\$ <u><u>2,178,988</u></u>	\$ <u><u>(101,506)</u></u>	\$ -	\$ <u><u>2,077,482</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 14 - 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.

Note 15 - Contingent Liabilities:

Federal programs in which the City and its component unit participate were audited in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 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. \$5,315,930 is the total estimated closure and post-closure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2016. 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 2016. 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 75.3% full, including cells A and B. The life expectancy for cells A and B is 1.6 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.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 17 - Surety Bonds:

Fidelity & Deposit Company of Maryland-Surety:	
Richard Douglas, City Manager	\$ 100,000
Theresa Harrison, 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 18 - Deferred/Unavailable Revenue:

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

	<u>Unavailable</u>
Property taxes receivable-2nd half 2016	\$ 1,911,946
Personal property taxes relief	24,731
Prepaid taxes	24,421
Total deferred revenue for governmental activities	\$ 1,961,098
 Taxes receivable due prior to June 30, 2016, not collected within 60 days	 \$ 492,907
Total unavailable revenue for governmental funds	<u>2,454,005</u>

Note 19 - Construction Commitments:

	Original Contract	Amount Paid As of 6/30/2016	Remaining Contract Amount	Accounts Payable	Retainage Payable
Water Treatment Plant Imp.	\$1,567,850	\$ 1,458,468	\$ 109,382	\$ 16,472	\$ 58,339

Note 20 - Concentrations:

The City of Covington, Virginia relies heavily on the MeadWestvaco plant for tax revenue and employment of citizens. MeadWestvaco directly comprises 13.90% of the real estate tax levy, not including 88.46% of the Public Service Corporation tax levy, and 62.48% of the personal property taxes, including machinery and tools tax levy, for a combined 56.68% of the total City's 2016 tax levy.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 21 - Litigation:

Mead Westvaco appealed an assessment of machinery and tools tax for the tax years 2011, 2012, and 2013. Following a review by the Commissioner of Revenue and City Council, the City agreed to refund the following amounts including interest for the following years: 2011 - \$538,233, 2012 - \$437,478, and 2013 - \$372,352. During fiscal year 2014, Mead Westvaco requested additional refunds and the City agreed to an additional amount of \$336,502. The City paid its first installment related to the refunds during fiscal year 2014 in the amount of \$613,024. During fiscal year 2015, the City refunded \$735,038 and as of June 30, 2016, owed \$336,502 plus interest of \$28,047 for a total of \$364,549. The entire balance (\$364,549) was refunded during fiscal year 2016.

Mead Westvaco re-appealed an assessment of machinery and tools tax for the tax year 2013. The Commissioner of the Revenue ruled against the appeal however, the taxpayer has until December 31, 2016 to appeal the determination to the circuit court. If the appeal is filed and the City loses, the City may be required to refund the taxpayer as much as \$300,000.

As of June 30, 2016, there were no other matters of litigation involving the City which would materially affect the City's financial position should court decisions on pending matters not be favorable.

Note 22-Adoption of Accounting Principle:

**Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application***

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. The Statement generally requires investments to be measured at fair value. The Statement requires the City to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Statement establishes a hierarchy of inputs used to measure fair value. There was no material impact on the City's financial statement as a result of the implementation of Statement No. 72. All required disclosures are located in Note 4.

**Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants***

The City implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the City's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 3.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 22-Adoption of Accounting Principle: (Continued)

Governmental Accounting Standards Board Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*

The City early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

Note 23 - Upcoming Pronouncements:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 77, *Tax Abatement Disclosures*, will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

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Note 23— Upcoming Pronouncements: (Continued)

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

## 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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
<b>REVENUES</b>				
General property taxes	\$ 7,950,159	\$ 7,950,159	\$ 8,060,434	\$ 110,275
Other local taxes	3,771,250	3,771,250	3,647,128	(124,122)
Permits, privilege fees, and regulatory licenses	9,355	9,355	11,397	2,042
Fines and forfeitures	5,300	5,300	2,934	(2,366)
Revenue from the use of money and property	41,000	41,000	26,472	(14,528)
Charges for services	1,311,498	1,323,301	1,261,051	(62,250)
Miscellaneous	600	524,706	530,886	6,180
Recovered costs	14,000	14,000	31,419	17,419
Intergovernmental:				
Commonwealth	3,429,691	3,464,093	3,294,336	(169,757)
Federal	196,475	697,514	118,327	(579,187)
Total Revenues	\$ 16,729,328	\$ 17,800,678	\$ 16,984,384	\$ (816,294)
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,528,623	\$ 2,312,757	\$ 1,949,443	\$ 363,314
Judicial administration	230,100	238,349	199,965	38,384
Public safety	3,434,559	3,614,094	4,007,619	(393,525)
Public works	2,745,055	3,726,495	3,025,459	701,036
Health and welfare	1,679,343	1,679,343	1,352,724	326,619
Education	3,853,226	3,553,226	3,410,616	142,610
Parks, recreation, and cultural	1,511,636	2,176,086	2,139,810	36,276
Community development	105,607	105,763	97,984	7,779
Nondepartmental	494,549	500,643	22,730	477,913
Debt service:				
Principal retirement	726,536	3,336,536	3,336,534	2
Interest and other fiscal charges	1,107,367	1,143,013	1,118,701	24,312
Total Expenditures	\$ 17,416,601	\$ 22,386,305	\$ 20,661,585	\$ 1,724,720
Excess (deficiency) of revenues over (under) expenditures	\$ (687,273)	\$ (4,585,627)	\$ (3,677,201)	\$ 908,426
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 687,273	\$ 1,416,447	\$ 1,415,628	\$ (819)
Issuance of general obligation bonds	-	2,410,000	2,410,000	-
Issuance of literary fund loan	-	11,645,000	11,645,000	-
Payment to refunding bond escrow agent	-	(11,617,355)	(11,617,354)	1
Total other financing sources (uses)	\$ 687,273	\$ 3,854,092	\$ 3,853,274	\$ (818)
Net change in fund balances	\$ -	\$ (731,535)	\$ 176,073	\$ 907,608
Fund balances - beginning	-	1,237,424	4,249,848	3,012,424
Fund balances - ending	\$ -	\$ 505,889	\$ 4,425,921	\$ 3,920,032

## City of Covington, Virginia

Schedule of OPEB Funding Progress  
For the Year Ended June 30, 2016

## City Postemployment Healthcare Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2014	\$ -	\$ 911,000	\$ 911,000	0.00%	\$ 3,623,800	25.14%
July 1, 2011	-	701,300	701,300	0.00%	3,443,700	20.36%
July 1, 2008	-	1,440,800	1,440,800	0.00%	3,519,100	40.94%

## City Postemployment VRS Health Insurance Credit

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2015	\$ 99,148	\$ 316,437	\$ 217,289	31.33%	\$ 3,376,579	6.44%
June 30, 2014	100,020	322,166	222,146	31.05%	3,298,379	6.74%
June 30, 2013	92,288	312,192	219,904	29.56%	3,169,540	6.94%

## School Board Postemployment Healthcare Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2015	\$ -	\$ 988,500	\$ 988,500	0.00%	\$ 5,328,600	18.55%
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%

## School Board Postemployment VRS Health Insurance Credit

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2015	\$ 14,053	\$ 60,798	\$ 46,745	23.11%	\$ 464,175	10.07%
June 30, 2014	15,099	59,408	44,309	25.42%	509,436	8.70%
June 30, 2013	13,656	63,421	49,765	21.53%	497,082	10.01%

City of Covington, Virginia  
Schedule of Components of and Changes in Net Pension Liability and Related Ratios  
Primary Government  
For the Year Ended June 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 381,110	\$ 364,378
Interest	1,592,529	1,553,775
Changes of benefit terms	-	-
Differences between expected and actual experience	(248,359)	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(1,328,466)	(1,400,603)
Net change in total pension liability	\$ 396,814	\$ 517,550
Total pension liability - beginning	23,414,644	22,897,094
Total pension liability - ending (a)	<u>\$ 23,811,458</u>	<u>\$ 23,414,644</u>
Plan fiduciary net position		
Contributions - employer	\$ 600,630	\$ 548,162
Contributions - employee	177,538	175,244
Net investment income	823,292	2,543,910
Benefit payments, including refunds of employee contributions	(1,328,466)	(1,400,603)
Administrative expense	(11,662)	(14,164)
Other	(171)	134
Net change in plan fiduciary net position	\$ 261,161	\$ 1,852,683
Plan fiduciary net position - beginning	18,286,135	16,433,452
Plan fiduciary net position - ending (b)	<u>\$ 18,547,296</u>	<u>\$ 18,286,135</u>
City's net pension liability - ending (a) - (b)	\$ 5,264,162	\$ 5,128,509
Plan fiduciary net position as a percentage of the total pension liability	77.89%	78.10%
Covered payroll	\$ 3,712,605	\$ 3,552,497
City's net pension liability as a percentage of covered payroll	141.79%	144.36%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia  
Schedule of Components of and Changes in Net Pension Liability and Related Ratios  
Component Unit School Board (nonprofessional)  
For the Year Ended June 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 62,270	\$ 58,304
Interest	195,457	191,627
Changes of benefit terms	-	-
Differences between expected and actual experience	(2,890)	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(207,569)	(182,868)
Net change in total pension liability	\$ 47,268	\$ 67,063
Total pension liability - beginning	2,896,032	2,828,969
Total pension liability - ending (a)	<u>\$ 2,943,300</u>	<u>\$ 2,896,032</u>
Plan fiduciary net position		
Contributions - employer	\$ 76,341	\$ 91,712
Contributions - employee	23,812	26,021
Net investment income	101,524	312,953
Benefit payments, including refunds of employee contributions	(207,569)	(182,868)
Administrative expense	(1,474)	(1,725)
Other	(19)	17
Net change in plan fiduciary net position	\$ (7,385)	\$ 246,110
Plan fiduciary net position - beginning	2,261,633	2,015,523
Plan fiduciary net position - ending (b)	<u>\$ 2,254,248</u>	<u>\$ 2,261,633</u>
School Division's net pension liability - ending (a) - (b)	\$ 689,052	\$ 634,399
Plan fiduciary net position as a percentage of the total pension liability	76.59%	78.09%
Covered-employee payroll	\$ 366,880	\$ 511,831
School Division's net pension liability as a percentage of covered-employee payroll	187.81%	123.95%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia  
Schedule of Employer's Share of Net Pension Liability VRS Teacher Retirement Plan  
For the Year Ended June 30, 2016\*

	2015	2014
Employer's Proportion of the Net Pension Liability (Asset)	0.06588%	0.07007%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 8,292,000	\$ 8,468,000
Employer's Covered Payroll	4,891,913	5,125,379
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	169.50%	165.22%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.88%	70.88%

Schedule is intended to show information for 10 years. Fiscal year 2015 is the first year for this presentation, additional years will be included as they become available.

\* The amounts presented have a measurement date of the previous fiscal year end.



City of Covington, Virginia  
Schedule of Employer Contributions  
For the Year Ended June 30, 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
Primary Government					
2016	\$ 624,974	\$ 624,974	\$ -	\$ 3,712,605	16.98%
2015	600,630	600,630	-	3,552,497	16.98%
2014	548,343	548,343	-	3,463,949	15.83%
2013	561,286	561,286	-	3,545,708	15.83%
2012	439,094	439,094	-	3,462,887	12.68%
2011	439,027	439,027	-	3,462,358	12.68%
2010	461,390	461,390	-	3,607,428	12.79%
2009	470,814	470,814	-	3,681,114	12.79%
2008	568,869	568,869	-	3,593,614	15.83%
2007	558,069	558,069	-	3,525,387	15.83%
Component Unit School Board (nonprofessional)					
2016	\$ 58,731	\$ 58,731	\$ -	\$ 366,880	16.03%
2015	76,341	76,341	-	476,240	16.03%
2014	80,357	80,357	-	511,831	15.70%
2013	76,359	76,359	-	486,362	15.70%
2012	58,842	58,842	-	516,615	11.39%
2011	56,812	56,812	-	498,789	11.39%
2010	49,559	49,559	-	521,675	9.50%
2009	52,674	52,674	-	554,464	9.50%
2008	80,605	80,605	-	599,742	13.44%
2007	76,655	76,655	-	570,351	13.44%
Component Unit School Board (professional)					
2016	\$ 721,000	\$ 721,000	\$ -	\$ 5,196,952	14.50%
2015	710,000	710,000	-	4,891,913	14.50%
2014	597,619	597,619	-	5,125,377	11.66%
2013	598,100	598,100	-	5,129,503	11.66%
2012	339,388	339,388	-	5,361,580	6.33%
2011	153,458	153,458	-	3,904,784	3.93%
2010	348,068	348,068	-	3,950,829	8.81%
2009	476,718	476,718	-	5,411,101	8.81%
2008	487,952	487,952	-	5,303,826	9.20%
2007	467,309	467,309	-	5,079,446	9.20%

City of Covington, Virginia  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2016

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In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. The definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by the enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Component Unit School Board - Professional Employees

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates withdrawals for 3 through 9 years of service
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

## 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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Revenue from the use of money and property	\$ -	\$ -	\$ 88	\$ 88
EXPENDITURES				
Debt service:				
Interest and other fiscal charges	\$ -	\$ 831	\$ 24	\$ 807
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (831)	\$ 64	\$ 895
Net change in fund balances	\$ -	\$ (831)	\$ 64	\$ 895
Fund balances - beginning	589	831	831	-
Fund balances - ending	\$ 589	\$ -	\$ 895	\$ 895

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Revenue from the use of money and property	\$ -	\$ 61	\$ 59	\$ (2)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ 61	\$ 59	\$ (2)
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ (1,012,806)	\$ (1,012,803)	\$ 3
Net change in fund balances	\$ -	\$ (1,012,745)	\$ (1,012,744)	\$ 1
Fund balances - beginning	-	1,012,745	1,012,744	(1)
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

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, 2016

	School Operating <u>Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 650,324
Cash in custody of others	83,538
Receivables (net of allowance for uncollectibles):	
Accounts receivable	3,743
Due from other governmental units	301,954
Inventories	6,062
Prepaid items	80,142
Total assets	<u>\$ 1,125,763</u>
<b>LIABILITIES</b>	
Accrued liabilities	775,140
Due to primary government	326,706
Total liabilities	<u>\$ 1,101,846</u>
<b>FUND BALANCES</b>	
Nonspendable:	
Prepaid items	\$ 80,142
Inventory	6,062
Assigned:	
Textbook Funds	86,514
Unassigned	(148,801)
Total fund balances	<u>\$ 23,917</u>
Total liabilities and fund balances	<u>\$ 1,125,763</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total fund balances per above	\$ 23,917
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Land	\$ 89,663
Buildings and improvements	1,797,768
Machinery, equipment, and vehicles	<u>190,051</u>
	2,077,482
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	
Items related to measurement of net pension liability	(1,229,950)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and,	
	779,731
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	\$ (363,963)
Net OPEB obligation	(257,900)
Net pension liability	<u>(8,981,052)</u>
	(9,602,915)
Net position of governmental activities	<u>\$ (7,951,735)</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, 2016

	School Operating Fund
<b>REVENUES</b>	
Revenue from the use of money and property	\$ 1,590
Charges for services	97,344
Miscellaneous	28,298
Recovered costs	54,072
Intergovernmental:	
Local government	3,407,302
Commonwealth	6,302,644
Federal	839,550
Total revenues	<u>\$ 10,730,800</u>
<b>EXPENDITURES</b>	
Current:	
Education	\$ 10,425,658
Capital projects	308,714
Total expenditures	<u>\$ 10,734,372</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (3,572)</u>
Net change in fund balances	\$ (3,572)
Fund balances - beginning	<u>27,489</u>
Fund balances - ending	<u><u>\$ 23,917</u></u>
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
Net change in fund balances - total governmental funds - per above	\$ (3,572)
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 capital outlays exceeded the depreciation in the current period.	
Capital asset additions	\$ 55,163
Depreciation expense	<u>(156,669)</u>
	(101,506)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred inflows related to the measurement of the net pension liability/asset	254,415
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	\$ (30)
(Increase) decrease in net OPEB obligation	(32,700)
Change in net pension liability/asset	121,347
Change in deferred outflows related to pensions	<u>(4,610)</u>
	84,007
Change in net position of governmental activities	<u><u>\$ 233,344</u></u>



City of Covington, Virginia  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Discretely Presented Component Unit - School Board  
For the Year Ended June 30, 2016

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 500	\$ 500	\$ 1,590	\$ 1,090
Charges for services	516,248	516,248	97,344	(418,904)
Miscellaneous	45,352	45,352	28,298	(17,054)
Recovered costs	55,000	55,000	54,072	(928)
Intergovernmental:				
Local government	3,549,912	3,549,912	3,407,302	(142,610)
Commonwealth	6,135,605	6,174,121	6,302,644	128,523
Federal	815,059	877,092	839,550	(37,542)
Total revenues	<u>\$ 11,117,676</u>	<u>\$ 11,218,225</u>	<u>\$ 10,730,800</u>	<u>\$ (487,425)</u>
EXPENDITURES				
Current:				
Education	\$ 10,780,926	\$ 10,876,846	\$ 10,425,658	\$ 451,188
Capital projects	336,750	341,379	308,714	32,665
Total expenditures	<u>\$ 11,117,676</u>	<u>\$ 11,218,225</u>	<u>\$ 10,734,372</u>	<u>\$ 483,853</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,572)</u>	<u>\$ (3,572)</u>
Net change in fund balances	\$ -	\$ -	\$ (3,572)	\$ (3,572)
Fund balances - beginning	-	-	27,489	27,489
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,917</u>	<u>\$ 23,917</u>

## Supporting Schedules

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

Schedule 1  
Page 1 of 4

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 2,047,874	\$ 2,047,874	\$ 2,087,522	\$ 39,648
Real and personal public service corporation taxes	1,929,822	1,929,822	2,013,804	83,982
Personal property taxes	961,521	961,521	974,574	13,053
Mobile home taxes	8,942	8,942	8,002	(940)
Machinery and tools taxes	2,927,000	2,927,000	2,874,828	(52,172)
Penalties	45,000	45,000	51,962	6,962
Interest and fees	30,000	30,000	49,742	19,742
Total general property taxes	\$ 7,950,159	\$ 7,950,159	\$ 8,060,434	\$ 110,275
Other local taxes:				
Local sales and use taxes	\$ 1,375,000	\$ 1,375,000	\$ 1,192,705	\$ (182,295)
Consumers' utility taxes	380,000	380,000	401,871	21,871
Consumption taxes	22,000	22,000	23,884	1,884
Business license taxes	550,000	550,000	505,037	(44,963)
Motor vehicle licenses	135,000	135,000	138,148	3,148
Bank stock taxes	150,000	150,000	180,631	30,631
Recordation tax	25,000	25,000	38,599	13,599
Hotel and motel room taxes	24,848	24,848	17,491	(7,357)
Restaurant food taxes	1,004,402	1,004,402	1,037,409	33,007
Tobacco taxes	105,000	105,000	111,353	6,353
Total other local taxes	\$ 3,771,250	\$ 3,771,250	\$ 3,647,128	\$ (124,122)
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 500	\$ 500	\$ 321	\$ (179)
Dog pound fees	25	25	-	(25)
Special use permits	25	25	912	887
Zoning and subdivision permits	250	250	1,174	924
Building permits	8,100	8,100	8,636	536
Sign permits	180	180	354	174
Other permits and licenses	275	275	-	(275)
Total permits, privilege fees, and regulatory licenses	\$ 9,355	\$ 9,355	\$ 11,397	\$ 2,042
Fines and forfeitures:				
Court fines and forfeitures	\$ 5,300	\$ 5,300	\$ 2,934	\$ (2,366)
Revenue from use of money and property:				
Revenue from use of money	\$ 27,000	\$ 27,000	\$ 14,093	\$ (12,907)
Revenue from use of property	14,000	14,000	12,379	(1,621)
Total revenue from use of money and property	\$ 41,000	\$ 41,000	\$ 26,472	\$ (14,528)
Charges for services:				
Maintenance of highways	\$ -	\$ 11,803	\$ 11,803	\$ -
Charges for fire and rescue services	440,000	440,000	303,158	(136,842)
Charges for sanitation and waste removal	746,098	746,098	772,393	26,295
Charges for parks and recreation	41,500	41,500	53,421	11,921
Charges for landfill closure	40,650	40,650	87,079	46,429
Charges for cemetery	35,000	35,000	32,915	(2,085)
Charges for other services	8,250	8,250	282	(7,968)
Total charges for services	\$ 1,311,498	\$ 1,323,301	\$ 1,261,051	\$ (62,250)
Miscellaneous:				
Miscellaneous	\$ 600	\$ 524,706	\$ 530,886	\$ 6,180

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

Schedule 1  
Page 2 of 4

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (continued)				
Recovered costs:				
CSA recoveries	\$ -	\$ -	\$ 9,832	\$ 9,832
Other recovered costs	14,000	14,000	21,587	7,587
Total recovered costs	\$ 14,000	\$ 14,000	\$ 31,419	\$ 17,419
Total revenue from local sources	\$ 13,103,162	\$ 13,639,071	\$ 13,571,721	\$ (67,350)
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 17,200	\$ 17,200	\$ 15,683	\$ (1,517)
Mobile home titling tax	600	600	1,770	1,170
Motor vehicle rental tax	22,800	22,800	19,682	(3,118)
State recordation tax	-	-	7,627	7,627
Telecommunications taxes	305,000	305,000	300,462	(4,538)
Personal property tax relief funds	545,479	545,479	538,875	(6,604)
Total noncategorical aid	\$ 891,079	\$ 891,079	\$ 884,099	\$ (6,980)
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 74,440	\$ 74,440	\$ 74,172	\$ (268)
Treasurer	68,533	68,533	66,702	(1,831)
Registrar/electoral board	28,000	28,000	32,335	4,335
Total shared expenses	\$ 170,973	\$ 170,973	\$ 173,209	\$ 2,236
Other categorical aid:				
Welfare payments	\$ 150,938	\$ 150,938	\$ 55,080	\$ (95,858)
CSA payments	776,880	776,880	713,103	(63,777)
Criminal justice grant	257,846	257,846	257,128	(718)
Litter control grant	6,100	6,100	6,186	86
Technology E-911 grants	46,000	46,000	42,065	(3,935)
Fire program	16,000	20,000	20,000	-
Asset forfeiture	2,000	2,000	1,784	(216)
Emergency four for life	5,200	5,200	5,562	362
Law enforcement block grant	3,660	3,660	-	(3,660)
State highway payments	1,000,000	1,000,000	1,028,367	28,367
Victim-witness grant	17,965	13,917	12,686	(1,231)
E-911 grant program - wireless trunking	-	9,450	2,573	(6,877)
Emergency medical services	-	-	7,393	7,393
VA commission for the arts	5,000	5,000	5,000	-
Disaster recovery	80,000	80,000	80,000	-
Other State funds	50	25,050	101	(24,949)
Total other categorical aid	\$ 2,367,639	\$ 2,402,041	\$ 2,237,028	\$ (165,013)
Total categorical aid	\$ 2,538,612	\$ 2,573,014	\$ 2,410,237	\$ (162,777)
Total revenue from the Commonwealth	\$ 3,429,691	\$ 3,464,093	\$ 3,294,336	\$ (169,757)

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

Schedule 1  
Page 3 of 4

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ 39,988	\$ 52,959	\$ 48,274	\$ (4,685)
Transportation enhancement grant	-	485,968	-	(485,968)
Disaster recovery	-	-	11,090	11,090
DMV grant	7,600	9,700	5,358	(4,342)
Bureau of justice	500	500	-	(500)
Vol fire assistance program grant	1,500	1,500	-	(1,500)
Public assistance and welfare administration	146,887	146,887	53,605	(93,282)
Total categorical aid	<u>\$ 196,475</u>	<u>\$ 697,514</u>	<u>\$ 118,327</u>	<u>\$ (579,187)</u>
Total revenue from the federal government	<u>\$ 196,475</u>	<u>\$ 697,514</u>	<u>\$ 118,327</u>	<u>\$ (579,187)</u>
Total General Fund	<u>\$ 16,729,328</u>	<u>\$ 17,800,678</u>	<u>\$ 16,984,384</u>	<u>\$ (816,294)</u>
Debt Service Fund:				
School Debt Service Reserve Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 88	\$ 88
Total School Debt Service Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88</u>	<u>\$ 88</u>
Capital Projects Fund:				
School Construction Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ 61	\$ 59	\$ (2)
Total School Construction Fund	<u>\$ -</u>	<u>\$ 61</u>	<u>\$ 59</u>	<u>\$ (2)</u>
Total Primary Government	<u>\$ 16,729,328</u>	<u>\$ 17,800,739</u>	<u>\$ 16,984,531</u>	<u>\$ (816,208)</u>
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 177	\$ 177
Revenue from the use of property	500	500	1,413	913
Total revenue from use of money and property	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 1,590</u>	<u>\$ 1,090</u>
Charges for services:				
Cafeteria sales	\$ 516,248	\$ 516,248	\$ 83,362	\$ (432,886)
Textbook fees	-	-	13,982	13,982
Total charges for services	<u>\$ 516,248</u>	<u>\$ 516,248</u>	<u>\$ 97,344</u>	<u>\$ (418,904)</u>
Miscellaneous:				
Miscellaneous	<u>\$ 45,352</u>	<u>\$ 45,352</u>	<u>\$ 28,298</u>	<u>\$ (17,054)</u>
Recovered costs:				
Payments from other localities	\$ 55,000	\$ 55,000	\$ 54,072	\$ (928)
Total recovered costs	<u>\$ 55,000</u>	<u>\$ 55,000</u>	<u>\$ 54,072</u>	<u>\$ (928)</u>
Total revenue from local sources	<u>\$ 617,100</u>	<u>\$ 617,100</u>	<u>\$ 181,304</u>	<u>\$ (435,796)</u>

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

Schedule 1  
Page 4 of 4

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenues from local governments: (Continued)				
Contribution from City of Covington, Virginia	\$ 3,549,912	\$ 3,549,912	\$ 3,407,302	\$ (142,610)
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Algebra readiness	\$ 18,675	\$ 18,675	\$ 18,675	\$ -
VA preschool initiative	146,513	146,513	146,513	-
At risk payments	144,196	144,196	148,380	4,184
Basic school aid	2,916,264	2,916,264	3,027,101	110,837
Compensation supplement	53,132	53,132	54,718	1,586
Early reading intervention	34,158	34,158	34,158	-
Education technology payment	158,800	158,800	140,118	(18,682)
Fringe benefits	588,833	588,833	606,408	17,575
Gifted and talented	30,819	30,819	31,739	920
ISAP program	7,859	7,859	7,859	-
National board certification	-	-	370	370
Primary class size	216,386	216,386	209,793	(6,593)
Remedial education	161,306	161,306	166,121	4,815
School food	8,766	8,766	8,824	58
School security grant	-	38,516	38,516	-
Remedial summer education	42,321	42,321	35,383	(6,938)
Share of state sales tax	976,503	976,503	979,723	3,220
Special education	483,561	483,561	497,169	13,608
Special education - foster children	16,791	16,791	16,892	101
Textbook payment	63,093	63,093	64,976	1,883
Vocational education	63,605	63,605	65,503	1,898
Vocational education - equipment	2,580	2,580	2,654	74
Other categorical aid	1,444	1,444	1,051	(393)
Total categorical aid	\$ 6,135,605	\$ 6,174,121	\$ 6,302,644	\$ 128,523
Total revenue from the Commonwealth	\$ 6,135,605	\$ 6,174,121	\$ 6,302,644	\$ 128,523
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 213,945	\$ 213,945	\$ 203,643	\$ (10,302)
Title VI, rural and low income schools	-	15,267	15,267	-
Title VI-B, special education flow-through	220,757	220,757	215,672	(5,085)
Vocational education	18,084	18,084	14,905	(3,179)
Title VI-B, special education pre-school	10,273	10,273	9,945	(328)
AP Test Fee	-	-	82	82
Gear-up VA project	-	46,766	23,994	(22,772)
Title II, Part A	52,000	52,000	50,022	(1,978)
School breakfast program	25,000	25,000	66,612	41,612
School lunch program	275,000	275,000	204,312	(70,688)
School lunch commodities	-	-	17,901	17,901
Adult literacy	-	-	17,195	17,195
Total categorical aid	\$ 815,059	\$ 877,092	\$ 839,550	\$ (37,542)
Total revenue from the federal government	\$ 815,059	\$ 877,092	\$ 839,550	\$ (37,542)
Total Discretely Presented Component Unit - School Board	\$ 11,117,676	\$ 11,218,225	\$ 10,730,800	\$ (487,425)

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

Schedule 2  
Page 1 of 4

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
City council	\$ 44,577	\$ 47,347	\$ 44,574	\$ 2,773
City clerk	14,527	14,527	14,149	378
Total legislative	\$ 59,104	\$ 61,874	\$ 58,723	\$ 3,151
General and financial administration:				
City manager	\$ 171,734	\$ 259,762	\$ 264,987	\$ (5,225)
Information technology	69,900	114,706	114,703	3
Legal services	60,458	72,458	69,329	3,129
Commissioner of revenue	237,928	237,928	230,034	7,894
Independent auditors	57,956	57,956	56,036	1,920
Treasurer	295,967	303,644	274,729	28,915
Central accounting	507,495	1,126,685	805,280	321,405
Board of Equalization	3,150	3,150	586	2,564
Total general and financial administration	\$ 1,404,588	\$ 2,176,289	\$ 1,815,684	\$ 360,605
Board of elections:				
Electoral board and officials	\$ 64,931	\$ 74,594	\$ 75,036	\$ (442)
Total board of elections	\$ 64,931	\$ 74,594	\$ 75,036	\$ (442)
Total general government administration	\$ 1,528,623	\$ 2,312,757	\$ 1,949,443	\$ 363,314
Judicial administration:				
Courts:				
Circuit court	\$ 16,033	\$ 10,468	\$ 10,468	\$ -
General district court	5,398	6,312	6,312	-
Magistrates office	4,032	4,032	1,079	2,953
Clerk of the circuit court	37,428	41,086	41,086	-
Sheriff (court)	64,319	99,357	99,357	-
Joint Services	53,971	35,431	-	35,431
Total courts	\$ 181,181	\$ 196,686	\$ 158,302	\$ 38,384
Commonwealth's attorney:				
Commonwealth's attorney	\$ 48,919	\$ 41,663	\$ 41,663	\$ -
Total judicial administration	\$ 230,100	\$ 238,349	\$ 199,965	\$ 38,384
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,646,092	\$ 1,650,152	\$ 1,647,120	\$ 3,032
Sheriff	234,659	235,499	235,499	-
Victim witness	57,763	66,886	58,475	8,411
E-911 wireless grant	554,180	551,315	548,198	3,117
Seizure/forfeiture funds	2,500	2,820	2,219	601
Total law enforcement and traffic control	\$ 2,495,194	\$ 2,506,672	\$ 2,491,511	\$ 15,161
Fire and rescue services:				
Volunteer fire department	\$ 213,292	\$ 276,446	\$ 719,883	\$ (443,437)
Ambulance service	267,683	306,000	273,274	32,726
Total fire and rescue services	\$ 480,975	\$ 582,446	\$ 993,157	\$ (410,711)
Correction and detention:				
Sheriff (jail)	\$ 219,166	\$ 210,077	\$ 210,077	\$ -
Probation office	4,020	4,020	3,159	861
Total correction and detention	\$ 223,186	\$ 214,097	\$ 213,236	\$ 861
Inspections:				
Building	\$ 105,976	\$ 180,976	\$ 179,684	\$ 1,292

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

Schedule 2  
Page 2 of 4

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Public safety: (continued)				
Other protection:				
Animal control	\$ 129,178	\$ 129,853	\$ 130,011	\$ (158)
Medical examiner	50	50	20	30
Total other protection	<u>\$ 129,228</u>	<u>\$ 129,903</u>	<u>\$ 130,031</u>	<u>\$ (128)</u>
Total public safety	<u>\$ 3,434,559</u>	<u>\$ 3,614,094</u>	<u>\$ 4,007,619</u>	<u>\$ (393,525)</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 20,000	\$ 5,820	\$ 23,415	\$ (17,595)
Street department	1,112,134	1,198,036	1,155,169	42,867
Snow and ice removal	40,185	57,940	57,341	599
Traffic engineering	86,199	87,556	87,493	63
Street cleaning	9,000	6,943	6,920	23
Street lights	150,000	167,185	166,339	846
Transportation enhancement-pedestrian/bridge improvements	-	607,622	32,800	574,822
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 1,417,518</u>	<u>\$ 2,131,102</u>	<u>\$ 1,529,477</u>	<u>\$ 601,625</u>
Sanitation and waste removal:				
Refuse collection	\$ 306,517	\$ 485,902	\$ 478,707	\$ 7,195
Refuse disposal	376,349	452,351	442,265	10,086
Landfill closure	3,984	8,316	7,801	515
Litter control grant	6,000	6,000	6,000	-
Recycling program	34,072	34,072	34,072	-
Total sanitation and waste removal	<u>\$ 726,922</u>	<u>\$ 986,641</u>	<u>\$ 968,845</u>	<u>\$ 17,796</u>
Maintenance of general buildings and grounds:				
General properties	\$ 367,410	\$ 373,381	\$ 295,009	\$ 78,372
Motor vehicular maintenance	233,205	235,371	232,128	3,243
Total maintenance of general buildings and grounds	<u>\$ 600,615</u>	<u>\$ 608,752</u>	<u>\$ 527,137</u>	<u>\$ 81,615</u>
Total public works	<u>\$ 2,745,055</u>	<u>\$ 3,726,495</u>	<u>\$ 3,025,459</u>	<u>\$ 701,036</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 99,369	\$ 99,369	\$ 97,790	\$ 1,579
Alleghany Highlands free clinic	7,000	7,000	7,000	-
Total health	<u>\$ 106,369</u>	<u>\$ 106,369</u>	<u>\$ 104,790</u>	<u>\$ 1,579</u>
Mental health and mental retardation:				
Alleghany Highlands community services board	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Welfare:				
Safehomes, Inc.	\$ 2,000	\$ 2,000	\$ 2,000	\$ -
Jackson river enterprise	12,000	12,000	12,000	-
Feeding America	1,250	1,250	1,250	-
Alleghany Highlands CSA foster care	1,043,843	1,043,843	1,003,475	40,368
HOPE, Inc.	500	500	-	500
Social Services	461,881	461,881	155,488	306,393
Other welfare	21,500	21,500	43,721	(22,221)
Total welfare	<u>\$ 1,542,974</u>	<u>\$ 1,542,974</u>	<u>\$ 1,217,934</u>	<u>\$ 325,040</u>
Total health and welfare	<u>\$ 1,679,343</u>	<u>\$ 1,679,343</u>	<u>\$ 1,352,724</u>	<u>\$ 326,619</u>
Education:				
Other instructional costs:				
Contributions to Community College	\$ 3,314	\$ 3,314	\$ 3,314	\$ -
Contribution to City School Board	3,849,912	3,549,912	3,407,302	142,610
Total education	<u>\$ 3,853,226</u>	<u>\$ 3,553,226</u>	<u>\$ 3,410,616</u>	<u>\$ 142,610</u>



City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

Schedule 2  
Page 3 of 4

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 1,048,768	\$ 1,686,122	\$ 1,660,031	\$ 26,091
Cultural enrichment:				
Senior center	\$ 121,430	\$ 91,719	\$ 88,562	\$ 3,157
Cemetery	210,774	267,581	263,653	3,928
League of older Americans	2,466	2,466	2,466	-
YMCA	3,100	3,100	-	3,100
Alleghany Highlands arts council	7,200	7,200	7,200	-
Alleghany Highlands arts/craft center	2,800	2,800	2,800	-
Total cultural enrichment	\$ 347,770	\$ 374,866	\$ 364,681	\$ 10,185
Library:				
Contribution to regional library	\$ 115,098	\$ 115,098	\$ 115,098	\$ -
Total parks, recreation, and cultural	\$ 1,511,636	\$ 2,176,086	\$ 2,139,810	\$ 36,276
Community development:				
Planning and community development:				
Planning commission	\$ 7,587	\$ 7,587	\$ 2,858	\$ 4,729
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	1,444	1,444	237	1,207
Economic development	68,710	68,866	68,863	3
Total planning and community development	\$ 97,741	\$ 97,897	\$ 91,958	\$ 5,939
Environmental management:				
Contribution to soil and water district	\$ 2,500	\$ 2,500	\$ 2,500	\$ -
Cooperative extension program:				
Extension office	\$ 5,366	\$ 5,366	\$ 3,526	\$ 1,840
Total community development	\$ 105,607	\$ 105,763	\$ 97,984	\$ 7,779
Nondepartmental:				
Contingencies	\$ 494,549	\$ 500,643	\$ 22,730	\$ 477,913
Total nondepartmental	\$ 494,549	\$ 500,643	\$ 22,730	\$ 477,913
Debt service:				
Principal retirement	\$ 726,536	\$ 3,336,536	\$ 3,336,534	\$ 2
Interest and other fiscal charges	1,107,367	1,143,013	1,118,701	24,312
Total debt service	\$ 1,833,903	\$ 4,479,549	\$ 4,455,235	\$ 24,314
Total General Fund	\$ 17,416,601	\$ 22,386,305	\$ 20,661,585	\$ 1,724,720
Debt Service Fund:				
School Debt Service Fund:				
Debt service:				
Interest and other fiscal charges	\$ -	\$ 831	\$ 24	\$ 807
Total School Debt Service Fund	\$ -	\$ 831	\$ 24	\$ 807
Total Primary Government	\$ 17,416,601	\$ 22,387,136	\$ 20,661,609	\$ 1,725,527

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2016

Schedule 2  
Page 4 of 4

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Education:				
Administration of schools:				
Attendance and health services	\$ 334,831	\$ 339,961	\$ 337,520	\$ 2,441
Executive administration services	321,131	358,836	352,371	6,465
Total administration of schools	<u>\$ 655,962</u>	<u>\$ 698,797</u>	<u>\$ 689,891</u>	<u>\$ 8,906</u>
Instruction costs:				
Instruction costs	<u>\$ 7,874,205</u>	<u>\$ 8,022,745</u>	<u>\$ 7,920,084</u>	<u>\$ 102,661</u>
School food services:				
Administration of school food program	<u>\$ 804,430</u>	<u>\$ 804,430</u>	<u>\$ 506,966</u>	<u>\$ 297,464</u>
Operating costs:				
Pupil transportation	\$ 294,345	\$ 227,785	\$ 212,994	\$ 14,791
Operation and maintenance of school plant	1,051,635	998,140	981,048	17,092
Facilities	100,349	124,949	114,675	10,274
Total operating costs	<u>\$ 1,446,329</u>	<u>\$ 1,350,874</u>	<u>\$ 1,308,717</u>	<u>\$ 42,157</u>
Total education	<u>\$ 10,780,926</u>	<u>\$ 10,876,846</u>	<u>\$ 10,425,658</u>	<u>\$ 451,188</u>
Capital projects:				
School capital projects	<u>\$ 336,750</u>	<u>\$ 341,379</u>	<u>\$ 308,714</u>	<u>\$ 32,665</u>
Total Discretely Presented Component Unit - School Board	<u><u>\$ 11,117,676</u></u>	<u><u>\$ 11,218,225</u></u>	<u><u>\$ 10,734,372</u></u>	<u><u>\$ 483,853</u></u>

## Other Statistical Section

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water Department	Sewer Department	Total
2015-16	\$ 1,917,011	\$ 199,965	\$ 3,460,421	\$ 2,934,344	\$ 1,342,892	\$ 3,995,718	\$ 1,324,136	\$ 97,984	\$ 1,074,337	\$ 1,054,462	\$ 1,473,877	\$ 18,875,147
2014-15	1,509,994	295,423	3,366,041	2,598,684	1,498,921	4,304,188	1,568,825	110,143	1,211,614	1,093,836	1,459,626	19,017,295
2013-14	1,569,154	164,988	3,152,116	2,702,655	1,448,418	4,064,623	1,515,073	77,718	1,135,754	1,114,862	1,256,623	18,201,984
2012-13	1,401,609	124,651	2,889,561	2,837,163	1,351,070	4,292,522	1,400,941	99,723	1,003,044	1,304,304	1,206,873	17,911,461
2011-12	1,438,892	123,380	3,021,155	2,700,887	1,758,368	5,874,905	1,212,345	70,625	1,052,480	1,173,197	1,066,781	19,493,015
2010-11	1,534,458	134,998	2,955,125	3,425,828	1,765,361	4,683,660	1,307,295	79,316	1,198,756	1,213,104	994,309	19,292,210
2009-10	1,483,169	122,901	2,819,474	1,913,115	1,700,110	3,825,555	1,320,420	99,201	1,256,643	1,322,656	998,491	16,861,735
2008-09	1,580,103	61,292	2,979,472	3,802,359	1,494,392	4,551,266	1,195,610	110,214	864,835	1,243,549	1,004,442	18,887,534
2007-08	1,429,516	78,185	2,770,525	3,824,813	1,361,609	4,183,893	1,220,322	107,562	894,475	1,244,985	976,235	18,092,120
2006-07	1,348,829	94,087	1,806,435	2,859,288	1,338,133	4,127,562	1,162,741	131,916	225,605	1,200,931	956,660	15,252,187

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
2015-16	\$ 5,048,173	\$ 2,525,991	\$ 9,090	\$ 8,137,262	\$ 3,647,128	\$ 32,364	\$ 543,348	\$ 884,099	\$ -	\$ 20,827,455
2014-15	5,009,483	2,405,973	55,382	7,917,708	3,656,977	51,153	140,692	893,422	-	20,130,790
2013-14	4,368,558	2,442,710	632,377	6,969,022	3,660,422	78,598	243,652	899,272	-	19,294,611
2012-13	4,045,390	2,467,313	468,882	6,763,991	3,979,168	80,082	14,490	893,226	-	18,712,542
2011-12	4,071,784	2,614,381	1,319,432	7,225,937	3,668,311	49,372	48,748	852,781	-	19,850,746
2010-11	4,170,379	3,304,823	684,814	7,184,718	3,445,125	66,865	66,814	917,297	7,011	19,847,846
2009-10	4,165,888	2,618,316	75,794	7,051,615	3,170,222	66,549	186,667	896,005	-	18,231,056
2008-09	4,006,079	2,696,980	4,900	6,937,869	3,396,974	237,828	94,651	825,521	-	18,200,802
2007-08	4,074,449	3,076,482	2,800	6,618,780	3,533,607	574,455	124,710	-	-	18,005,283
2006-07	3,947,907	2,343,564	441,313	6,984,763	3,452,298	79,295	567,379	843,290	-	18,659,809

Table 3

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural	Community Development	Capital Projects	Non-departmental	Debt Service (3)	Total
2015-16	\$ 1,949,443	\$ 199,965	\$ 4,007,619	\$ 3,025,459	\$ 1,352,724	\$ 10,428,972	\$ 2,139,810	\$ 97,984	\$ 308,714	\$ 22,730	\$ 2,049,392	\$ 25,582,812
2014-15	1,508,481	295,423	3,403,939	2,692,712	1,520,875	10,300,287	1,636,406	110,143	657,271	30,688	1,598,984	23,755,209
2013-14	1,442,101	164,988	3,000,898	2,470,238	1,455,490	10,103,530	1,544,455	85,394	333,530	135,264	1,204,549	21,940,437
2012-13	1,366,664	124,651	3,283,642	2,469,270	1,377,241	10,343,711	1,269,112	99,723	226,457	-	1,445,138	22,005,609
2011-12	1,679,198	123,380	3,008,874	2,269,664	1,781,741	10,533,161	1,691,179	70,625	70,148	-	1,725,188	22,953,158
2010-11	1,428,913	134,998	2,715,021	2,527,319	1,790,260	10,189,721	1,280,563	79,316	175,538	11,192	1,808,852	22,141,693
2009-10	1,334,414	172,901	2,955,446	2,696,909	1,724,165	9,833,368	1,484,555	99,201	869,412	-	1,801,162	22,921,533
2008-09	1,391,596	61,292	2,852,747	2,825,693	1,514,709	10,524,500	1,390,990	110,214	13,001,350	20,118	1,562,846	35,256,055
2007-08	1,433,034	78,185	2,589,022	3,877,615	1,397,869	10,692,037	1,329,602	107,562	9,022,652	816	1,548,023	32,076,417
2006-07	1,425,506	94,087	2,582,309	2,985,907	1,338,133	10,062,235	2,237,175	132,564	716,075	3,303	871,293	22,448,587

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

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

(3) For fiscal year 2009-10, excludes bond anticipation refunding of \$15,000,000 and related bond issuance cost of \$232,400. For fiscal year 2011-12, excludes bond issuance cost of \$110,350. For fiscal year 2013-14, excludes refunding of \$15,279,100 and related bond issuance cost of \$71,526. For Fiscal Year 2015-16, excludes bond issuance cost of \$48,867.

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
2015-16	\$ 8,060,434	\$ 3,647,128	\$ 11,397	\$ 2,934	\$ 28,209	\$ 1,358,395	\$ 559,184	\$ 85,491	\$ 10,554,857	\$ 24,308,029
2014-15	7,936,275	3,656,977	14,612	6,035	45,956	1,599,911	202,542	53,881	10,227,426	23,743,615
2013-14	6,883,416	3,660,422	11,102	7,488	71,181	1,185,004	316,127	109,596	10,000,137	22,244,473
2012-13	6,734,155	3,979,168	14,758	7,613	80,839	986,993	266,252	85,741	9,796,144	21,951,663
2011-12	7,227,463	3,668,311	30,126	12,163	50,459	1,142,389	308,716	80,095	9,962,710	22,482,432
2010-11	7,149,152	3,445,125	23,668	17,975	68,253	1,122,088	292,012	60,833	10,053,004	22,232,110
2009-10	7,058,693	3,170,222	9,584	33,647	67,929	946,815	213,963	175,928	9,813,945	21,490,726
2008-09	6,915,610	3,396,974	10,169	42,445	240,204	1,121,997	178,158	288,769	9,786,230	21,980,556
2007-08	6,949,940	3,533,607	15,574	32,644	575,228	1,095,585	122,925	171,692	9,546,958	22,044,153
2006-07	6,705,292	3,452,298	11,610	31,006	79,295	1,038,299	567,379	179,877	10,306,054	22,371,110

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

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

Table 5

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

Fiscal Year	Total Tax Levy (1,3)	Current Tax Collections (1,3)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1,2)	Percent of Delinquent Taxes to Tax Levy
2015-16	\$ 8,515,950	\$ 8,355,485	98.12%	\$ 142,120	8,497,605	99.78%	\$ 632,340	7.43%
2014-15	8,280,409	8,140,031	98.30%	143,259	8,283,290	100.03%	600,070	7.25%
2013-14	7,368,660	7,235,703	98.20%	117,095	7,352,798	99.78%	579,245	7.86%
2012-13	7,676,550	7,565,315	98.55%	86,064	7,651,379	99.67%	473,991	6.17%
2011-12	7,683,731	7,605,442	98.98%	94,049	7,699,491	100.21%	453,285	5.90%
2010-11	7,626,798	7,545,962	98.94%	80,400	7,626,362	99.99%	427,671	5.61%
2009-10	7,535,231	7,396,523	98.16%	130,551	7,527,074	99.89%	439,189	5.83%
2008-09	7,383,021	7,300,339	98.88%	67,143	7,367,482	99.79%	407,773	5.52%
2007-08	7,412,981	6,803,543	91.78%	73,600	6,877,143	92.77%	512,105	6.91%
2006-07	7,154,153	6,670,832	93.24%	68,673	6,739,505	94.20%	448,588	6.27%

(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		
2015-16	\$ 286,142,709	\$ 29,184,062	\$ 51,151,310	\$ 275,694,537	\$ 61,141	\$ 642,233,759	
2014-15	274,495,282	27,925,181	51,856,052	269,623,842	-	623,900,357	
2013-14	274,016,639	26,072,593	55,549,130	100,018,610	-	455,656,972	
2012-13	272,817,085	27,087,296	74,874,215	25,072,535	110,208	399,961,339	
2011-12	271,839,495	26,780,775	76,975,965	23,878,024	18,249	399,492,508	
2010-11	283,502,400	26,077,480	76,660,640	22,727,986	89,861	409,058,367	
2009-10	282,219,900	24,892,990	76,096,510	21,401,377	35,464	404,646,241	
2008-09	281,865,500	22,555,370	75,747,170	21,429,843	72,863	401,670,746	
2007-08	280,613,600	22,563,190	76,476,640	19,700,864	7,786	399,362,080	
2006-07	247,361,800	22,315,930	75,520,600	20,174,443	8,201	365,380,974	

(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
2015-16	\$ 0.73	\$ 0.73	\$ 5.60	\$ 5.52
2014-15	0.71	0.71	5.60	5.52
2013-14	0.69	0.69	5.60	5.52
2012-13	0.69	0.69	5.60	5.52
2011-12	0.69	0.69	5.60	5.52
2010-11	0.66	0.66	5.60	5.52
2009-10	0.66	0.66	5.60	5.52
2008-09	0.66	0.66	5.60	5.52
2007-08	0.66	0.66	5.60	5.52
2006-07	0.66	0.66	5.60	5.52

(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
2015-16	5,961	\$ 642,234	\$ 25,591,275	3.98%	\$ 4,293
2014-15	5,961	623,900	25,238,699	4.05%	4,234
2013-14	5,961	455,657	25,577,766	5.61%	4,291
2012-13	5,961	399,961	28,957,022	7.24%	4,858
2011-12	5,961	399,493	35,499,359	8.89%	5,955
2010-11	5,961	409,058	31,830,269	7.78%	5,340
2009-10	6,303	404,646	31,497,499	7.78%	4,997
2008-09	6,303	401,671	32,624,875	8.12%	5,176
2007-08	6,303	399,362	33,812,244	8.47%	5,364
2006-07	6,303	365,381	7,499,055	2.05%	1,190

(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
2015-16	\$ 979,534	\$ 1,067,484	\$ 2,047,018	\$ 25,582,812	8.00%
2014-15	1,118,701	1,187,259	2,305,960	23,755,209	9.71%
2013-14	314,436	890,113	1,204,549	21,940,437	5.49%
2012-13	473,155	971,983	1,445,138	22,005,609	6.57%
2011-12	532,023	1,193,165	1,725,188	22,953,158	7.52%
2010-11	551,540	1,257,312	1,808,852	22,141,693	8.17%
2009-10	569,703	1,231,459	1,801,162	22,921,533	7.86%
2008-09	668,841	894,005	1,562,846	35,256,055	4.43%
2007-08	650,800	237,312	888,112	32,076,417	2.77%
2006-07	643,813	227,480	871,293	22,448,587	3.88%

(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 and refunding of general obligation bond.

Table 10

City of Covington, Virginia  
Computation of Legal Debt Margin  
At June 30, 2015

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Legal Debt Limit:

10% of Assessed Value of Taxable Real Estate \$286,142,709	\$ 28,614,271
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Deduct:

Debt Payable	25,591,275
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Legal Margin for Creation of Additional Debt	<u>\$ 3,022,996</u>
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**COMPLIANCE SECTION**

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit and each major fund of the City of Covington, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Covington, Virginia's basic financial statements and have issued our report thereon dated November 16, 2016.

### Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. [2016-001]

## Compliance and Other Matters

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

## City of Covington, Virginia's Response to Findings

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

## Purpose of this Report

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

*Robinson, Turner, Co. Associates*

Blacksburg, Virginia  
November 16, 2016



# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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

### Report on Compliance for Each Major Federal Program

We have audited the City of Covington, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Covington, Virginia's, major federal programs for the year ended June 30, 2016. City of Covington, Virginia, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Covington, 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 the City of Covington, Virginia's compliance.

#### *Opinion on Each Major Federal Program*

In our opinion, the 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, 2016.

## Report on Internal Control over Compliance

Management of the 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 the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Robinson, Turner, & Associates*

Blacksburg, Virginia  
November 16, 2016

City of Covington, Virginia  
Schedule of Expenditures of Federal Awards (SEFA)  
Year Ended June 30, 2016

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	
DEPARTMENT OF AGRICULTURE:				
Pass Through Payments:				
Child Nutrition Cluster:				
Department of Agriculture:				
Food Distribution-Schools (Note 3)	10.555	Not available	\$ 17,589	
Department of Education:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	40623	204,312	\$ 221,901
Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	40591	66,612	\$ 288,513
Summer Food Service Program for Children	10.559			312
Total Department of Agriculture				\$ 288,825
DEPARTMENT OF EDUCATION:				
Pass Through Payments:				
Department of Education:				
Adult Education - Basic Grants to States	84.002	42801		\$ 17,195
Title I - Grants to Local Educational Agencies	84.010	42901		203,643
Special Education Cluster:				
Special Education - Grants to States	84.027	43071	215,672	
Special Education - Preschool Grants	84.173	62521	9,945	225,617
Career and Technical Education - Basic Grants to States	84.048	61095		14,905
Advanced Placement Program	84.330	60957		82
Supporting Effective Instruction State Grant (formerly				
Improving Teacher Quality State Grants)	84.367	61480		50,022
Rural Education	84.358	43481		15,267
Gaining Early Awareness and Readiness of Undergraduate Programs	84.334	Not available		23,994
Total Department of Education				\$ 550,725
DEPARTMENT OF JUSTICE:				
Pass Through Payments:				
Department of Criminal Justice Services:				
Crime Victim Assistance	16.575	46000, 66000		\$ 48,274
DEPARTMENT OF HOMELAND SECURITY:				
Pass Through Payments:				
Department of Emergency Management:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	158, 11099		\$ 11,090
DEPARTMENT OF TRANSPORTATION:				
Pass Through Payments:				
Department of Motor Vehicles:				
Alcohol Open Container Requirements	20.607	SC 15 55385		\$ 3,383
State and Community Highway Safety	20.600	154AL 15 55081		1,975
Total Department of Transportation				\$ 5,358
DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Pass Through Payments:				
Department of Social Services:				
Promoting Safe and Stable Families	93.556	0950114, 0950115		\$ 1,190
Temporary Assistance for Needy Families	93.558	0400115, 0400116		18,183
Child Care and Development Block Grant	93.575	0770115, 0770116		(181)
Foster Care - Title IV-E	93.658	1100116		186
Adoption Assistance	93.659	1120115, 1120116		12,889
Social Services Block Grant	93.667	1000115, 1000116		20,594
Chafee Foster Care Independence Program	93.674	9150115, 9150116		744
Department of Virginia Department of Health:				
Preventative Health and Health Services Block Grant	93.758	3B01oT009055-14W1		6,517
Total Department of Health and Human Services				\$ 60,122
Total Expenditures of Federal Awards				\$ 964,394

City of Covington, Virginia  
Schedule of Expenditures of Federal Awards (SEFA)  
Year Ended June 30, 2016

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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE 1--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Covington, Virginia under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Uniform Guidance, 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, 2016, the Covington City School Board held food commodities totaling \$17,901 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	\$ 118,327
Water Fund	<u>6,517</u>

Total primary government:	\$ 124,844
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Component Unit School Board:

School Operating Fund	<u>839,550</u>
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Total Federal Expenditures per Basic Financial Statements	<u><u>\$ 964,394</u></u>
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City of Covington, Virginia

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2016

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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 2CFR Section 200.516(a) No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.553/10.555/10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A  
and Type B programs \$750,000

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

2016-001

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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, 2016

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Section II - Financial Statement Findings (Continued)

2016-001 (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.

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Audit Findings and Questioned Costs

None