

CITY OF COVINGTON, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

CITY OF COVINGTON, VIRGINIA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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	5-13

	<u>Exhibit</u>	<u>Page</u>
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Position	1	14
Statement of Activities	2	15
Fund Financial Statements:		
Balance Sheet - Governmental Funds	3	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	5	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	19
Statement of Net Position - Proprietary Funds	7	20
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	8	21
Statement of Cash Flows - Proprietary Funds	9	22
Notes to the Financial Statements		23-105

Required Supplementary Information:

Schedule of Revenues, Expenditures and Change in Fund Balances - Budget and Actual:		
General Fund	10	106
Pension Plans		
Schedule of Changes in Net Pension Liability and Related Ratios - Primary Government	11	107
Schedule of Changes in Net Pension Liability and Related Ratios - Component Unit School Board (nonprofessional)	12	108
Schedule of Employer's Share of Net Pension Liability VRS Teacher Retirement Plan	13	109
Schedule of Employer Contributions - Pension	14	110
Notes to Required Supplementary Information - Pension	15	111

CITY OF COVINGTON, VIRGINIA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION (CONTINUED)

	<u>Exhibit</u>	<u>Page</u>
Required Supplementary Information: (Continued)		
Other Postemployment Benefits - Healthcare - Primary Government		
Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios	16	112
Notes to Required Supplementary Information	17	113
Other Postemployment Benefits - Healthcare - Component Unit School Board		
Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios	18	114
Notes to Required Supplementary Information	19	115
Other Postemployment Benefits - Group Life Insurance Program (GLI)		
Schedule of Employer's Share of Net OPEB Liability	20	116
Schedule of Employer's Contributions	21	117
Notes to Required Supplementary Information	22	118
Other Postemployment Benefits - Health Insurance Credit (HIC) Program		
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios - Primary Government	23	119
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios - Component Unit School Board (nonprofessional)	24	120
Schedule of Employer's Contributions	25	121
Notes to Required Supplementary Information	26	122
Other Postemployment Benefits - Teacher Employee Health Insurance Credit (HIC) Program		
Schedule of School Board's Share of Net OPEB Liability	27	123
Schedule of Employer's Contributions	28	124
Notes to Required Supplementary Information	29	125
Other Supplementary Information:		
Individual Fund Financial Statements and Schedules:		
Schedule of Revenues, Expenditures and Change in Fund Balances - Budget and Actual:		
City Capital Projects Fund	30	126
School Debt Service Fund	31	127
School Construction Fund	32	128
Discretely Presented Component Unit - School Board:		
Balance Sheet	33	129
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	34	130
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	35	131
Supporting Schedules:		
Schedule of Revenues - Budget and Actual - Governmental Funds	1	132-135
Schedule of Expenditures - Budget and Actual - Governmental Funds	2	136-139

CITY OF COVINGTON, VIRGINIA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION (CONTINUED)

	<u>Table</u>	<u>Page</u>
Other Statistical Information:		
Government-wide information:		
Government-Wide Expenses by Function	1	140
Government-Wide Revenues	2	141
Fund information:		
General Governmental Expenditures by Function	3	142
General Governmental Revenues by Source	4	143
Property Tax Levies and Collections	5	144
Assessed Value of Taxable Property	6	145
Property Tax Rates	7	146
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita	8	147
Ratio of Annual Debt Service Expenditures for General Bonded Debt to		
Total General Governmental Expenditures.....	9	148
Computation of Legal Debt Margin	10	149

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>	150-151
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	152-153
Schedule of Expenditures of Federal Awards	154-155
Schedule of Findings and Questioned Costs	156-157

INTRODUCTORY SECTION

CITY OF COVINGTON, VIRGINIA

CITY COUNCIL

David S. Crosier, Vice-Mayor	Thomas H. Sibold, Jr., Mayor	Claiborne Entsminger
Raymond C. Hunter		S. Allan Tucker

CITY SCHOOL BOARD

Bert Baker, Vice-Chair	Eddy Clemons, Chair	Tamala Preston
Erika Hunter		Tonya Jones

OTHER OFFICIALS

Interim City Manager	Clay Goodman
City Finance Director	David Bryant, Jr.
City Attorney	Mark C. Popovich
Commissioner of the Revenue.....	Cathy M. Kimberlin
City Treasurer	Theresa Harrison
Superintendent of Schools	Melinda Snead-Johnson
Chief of Police	Christopher J. Smith

FINANCIAL SECTION

Independent Auditors' Report

To the Honorable Members of the City Council
City of Covington, Virginia
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, 2019, 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, and each major fund of the City of Covington, Virginia, as of June 30, 2019, 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 25 to the financial statements, in 2019, the City adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. 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 5-13, 106, and 107-125 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* 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.

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 17, 2019, on our consideration of the City of Covington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Covington, Virginia's 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.

Polina, Fane, Cox Associates

Blacksburg, Virginia
November 17, 2019

CITY OF COVINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2019 (JULY 1, 2018 – JUNE 30, 2019)

As staff 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, 2019.

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 \$3,604,924 "total net position". The city participates in the Virginia Retirement System (VRS) for pension funding and has established a separate Solid Waste Management Fund (Business-Type) separate of the General Fund starting in FY 2019 to address future landfill needs as well as closure/post closure costs.
- At the close of the current fiscal year, the City of Covington's governmental funds reported an unassigned general fund balance of \$4,239,716.
- At the close of the current fiscal year, the City of Covington's General Fund reported total fund balances of \$4,536,698.
- At the end of the current fiscal year, the General Fund unassigned fund balance was 23.71% of revenues which is above the adopted policy of 18%.
- **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 water, sewer, and solid waste which became part of business type activities in FY 19.

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 separate from the financial information presented for the primary government itself. The water, sewer, and solid waste functions are departments 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 provides 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 3-6 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, Sewer, and Solid Waste 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, Sewer, and Solid Waste funds, 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, total 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 \$14,504,407 at the close of the most recent fiscal year.

City of Covington's Net Position Statement of Net Position For the Year Ended June 30, 2019 and June 30, 2018

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other assets	\$ 8,642,711	\$ 9,189,304	\$ 6,303,816	\$ 6,173,325	\$ 14,946,527	\$ 15,362,629
Capital assets	\$ 27,242,987	\$ 27,469,408	\$ 28,585,211	\$ 28,465,741	\$ 55,828,198	\$ 55,935,149
Total Assets	\$ 35,885,698	\$ 36,658,712	\$ 34,889,027	\$ 34,639,066	\$ 70,774,725	\$ 71,297,778
Deferred Outflows						
of Resources	\$ 1,375,982	\$ 1,321,790	\$ 237,349	\$ 170,631	\$ 1,613,331	\$ 1,492,421
Liabilities:						
Current liabilities	\$ 2,254,756	\$ 2,949,541	\$ 1,799,719	\$ 1,403,293	\$ 4,054,475	\$ 4,352,834
Long-term liabilities	\$ 28,754,956	\$ 29,616,481	\$ 22,262,813	\$ 25,612,910	\$ 51,017,769	\$ 55,229,391
Total Liabilities	\$ 31,009,712	\$ 32,566,022	\$ 24,062,532	\$ 27,016,203	\$ 55,072,244	\$ 59,582,225
Deferred Inflows						
of Resources	\$ 2,647,044	\$ 2,752,422	\$ 164,361	\$ 226,062	\$ 2,811,405	\$ 2,978,484
Net Position:						
Net investment						
in capital assets	\$ 3,774,182	\$ 3,270,714	\$ 10,926,467	\$ 10,076,853	\$ 14,700,649	\$ 13,347,567
Restricted	\$ 235,932	\$ 95,142	\$ 657,895	\$ 657,895	\$ 893,827	\$ 753,037
Unrestricted	\$ (405,190)	\$ (703,798)	\$ (684,879)	\$ (3,167,316)	\$ (1,090,069)	\$ (3,871,114)
Total Net Position	\$ 3,604,924	\$ 2,662,058	\$ 10,899,483	\$ 7,567,432	\$ 14,504,407	\$ 10,229,490

The City of Covington's net position reflects \$55,828,198 in capital assets and its net investment in capital assets of \$14,700,649 (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 \$893,827 and are comprised of \$235,932 of unspent grants and \$657,895 restricted for debt service and bond covenant in the Business-Type Activities.

City Of Covington's Statement of Activities

Statement of Activities

June 30, 2019 and June 30, 2018

	Governmental Activities		Business Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 513,788	\$ 1,584,449	\$ 5,962,350	\$ 4,103,189	\$ 6,476,138	\$ 5,687,638
Operating grants & contributions	3,339,954	3,812,846	-	-	3,339,954	3,812,846
Capital grants & contributions	81,058	523,817	197,588	-	278,646	523,817
General revenues:						
General property taxes	8,837,051	8,635,037	-	-	8,837,051	8,635,037
Other taxes	4,094,054	3,847,681	-	-	4,094,054	3,847,681
Unrestricted revenues from use of money and property	111,452	88,265	10,720	8,083	122,172	96,348
Grants and contributions not restricted to specific programs	858,084	856,277	-	-	858,084	856,277
Miscellaneous	53,955	92,716	33,559	13,180	87,514	105,896
					-	-
Total revenues	\$ 17,889,396	\$ 19,441,088	\$ 6,204,217	\$ 4,124,452	\$ 24,093,613	\$ 23,565,540
Expenses:						
General government Administration	\$ 1,796,717	\$ 1,596,965	\$ -	\$ -	\$ 1,796,717	\$ 1,596,965
Public Safety	4,190,785	3,824,213	-	-	4,190,785	3,824,213
Public Works	2,616,848	5,315,732	-	-	2,616,848	5,315,732
Education	3,739,401	3,574,098	-	-	3,739,401	3,574,098
Culture and Recreation	1,929,019	1,868,116	-	-	1,929,019	1,868,116
Interest on long-term debt	787,415	1,018,605	-	-	787,415	1,018,605
Judicial Administration	210,420	193,309	-	-	210,420	193,309
Health and Welfare	1,986,049	1,928,602	-	-	1,986,049	1,928,602
Community Development	152,906	252,110	-	-	152,906	252,110
Water	-	-	1,515,469	1,512,416	1,515,469	1,512,416
Sanitation	-	-	1,767,744	1,635,976	1,767,744	1,635,976
Solid Waste	-	-	1,798,195	-	1,798,195	-
Total expenses	\$ 17,409,560	\$ 19,571,750	\$ 5,081,408	\$ 3,148,392	\$ 22,490,968	\$ 22,720,142
Increase (decrease) in net position	\$ 479,836	\$ (130,662)	\$ 1,122,809	\$ 976,060	\$ 1,602,645	\$ 845,398
Transfers	463,030	407,205	(463,030)	(407,205)	-	-
Increase (decrease) in net position	\$ 942,866	\$ 276,543	\$ 659,779	\$ 568,855	\$ 1,602,645	\$ 845,398
Net Position - beginning (restated 2019)	2,662,058	(4,125,504)	10,239,704	13,509,596	12,901,762	9,384,092
Ending net position	\$ 3,604,924	\$ (3,848,961)	\$ 10,899,483	\$ 14,078,451	\$ 14,504,407	\$ 10,229,490

Governmental Activities: During the current fiscal year, Net Position for Governmental Activities increased \$942,866 from the prior fiscal year for an ending balance of \$3,604,924 based on restated beginning of fiscal year. Expenditure decreases in Public Works were driven by the move of Solid Waste from the General Fund to its own fund in Business-Type activities.

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 \$10,889,483. The total increase in net position for business-type activities (water, sewer, and solid-waste) was \$659,779 compared to the prior fiscal year based on restated values.

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, 2019, the City of Covington's total governmental funds reported total fund balances of \$4,536,698. Of this amount, \$4,239,716 constitutes unassigned fund balance which is reduced largely in part by a move of \$314,153 from the General Fund to the Solid Waste Management Fund for reserve creation purposes in the new fund. The unassigned fund balance is available at the discretion of city council for use as deemed necessary. The remainder of the fund balance is:

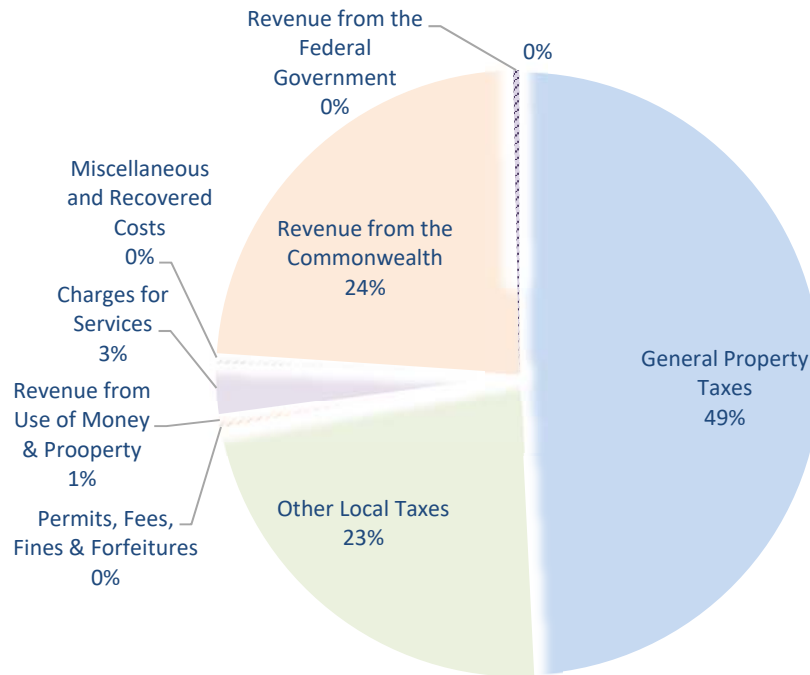
- 1) Restricted – Amounts constrained for specific purposes by their providers (such as grantees, bondholders, higher levels of government), constitutional provisions, or by enabling legislation. Of the City's total fund balance, \$235,932 is considered restricted for grants and \$61,050 restricted for capital projects.

The General Fund is the chief operating fund of the City of Covington. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund revenues. Unassigned fund balance represents approximately 23.71% of that same amount.

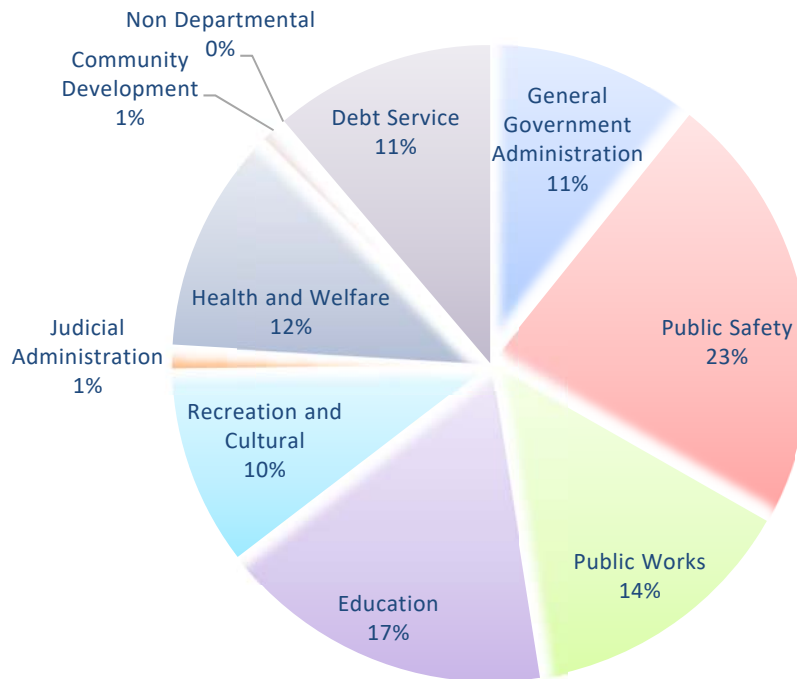
The unassigned fund balance of the City of Covington's general fund decreased \$184,839 from the end of FY18 to the end of FY19. However, please note that appropriations during the fiscal year to pay for a Police Department Records Management system, major thoroughfare emergency repairs, Next Generation 911 software, Virginia Department of Conservation and Recreation grant match, demolition of a collapsed structure, and additional year end CSA funding impacted this reduction. Still yet, the city's fund balance policy minimum limit was maintained.

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. The Water Fund finished the FY with \$7,127,453 in total net position while and Sewer Fund finished at \$7,727,060 in total net position, and the newly created Solid-Waste Fund finished at (\$3,955,030) which was driven by debt related to new cell construction, new landfill equipment, and closure/post closure estimates. FY 19 is the first year that closure/post closure funding was dedicated as part of the budget process as well.

Actual Budget Revenues for the General Fund Fiscal Year 2019



Actual Budget Expenditures for the General Fund Fiscal Year 2019



General Fund Budgetary Highlights

Original budget compared to final budget. During the year the budgetary expenditures were amended by \$2,629,615 for the General Fund. With these additions, actual expenditures compared to the budget showed a positive variance of \$1,653,880. This was mainly due to new and non-completion of projects related to public works projects (transportation enhancement), health and welfare (CSA), economic development, and project carryovers which have corresponding revenue streams that will be continued into Fiscal Year 2020.

Positive local revenue budget variances were realized in total general property taxes, total other local taxes, permits & fees, use of money & property, charges for services, and recovered costs (Please see Schedule 1).

Review of actual revenues and expenditures indicates that actual revenues for the General Fund were \$17,876,311 and expenditures for the General Fund were \$18,377,455. This variance is offset by budgeted net transfers of \$463,928 resulting in a net negative change in total fund balance of \$(37,216). This negative is greatest impacted by a budgeted appropriation from the general fund to the solid waste fund and an emergency road repair appropriation paid with local funds only in the general fund.

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, 2018, amounts to \$55,935,149 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, the water treatment plant, the wastewater treatment plant, and the Peter's Mountain landfill.

City of Covington's Capital Assets
Summary of Capital Assets for Governmental Activities
For the Year Ended June 30, 2019 and June 30, 2018

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,967,944	\$ 1,967,944	\$ -	\$ -	\$ 1,967,944	\$ 1,967,944
Buildings and improvements	20,109,572	23,099,922	-	-	20,109,572	23,099,922
Improvements other than buildings	-	-	-	-	-	-
Machinery and equipment	1,845,071	3,842,929	1,846,543	-	3,691,614	3,842,929
Infrastructure	1,731,922	1,834,529	19,855,175	17,572,894	21,587,097	19,407,423
Construction in progress	1,588,478	792,056	6,883,493	6,824,875	8,471,971	7,616,931
Total	\$ 27,242,987	\$ 31,537,380	\$ 28,585,211	\$ 24,397,769	\$ 55,828,198	\$ 55,935,149

The city's total capital assets at the end of FY19 were \$55,828,198. During FY18, the landfill was part of Governmental Activities and became their own Proprietary Fund in FY 19 as part of the Business-Type Activities and differences in activity total are identified from 2018 to 2019 above.

Please see additional information on the City of Covington's capital assets that can be found in Note 16 of this report.

Debt Administration: The City of Covington's total debt and liability by the end of FY 19 decreased \$4,205,518. This overall decrease in debt is driven by a reduction in estimated landfill liability costs as discussed in Note 19, as well as prompt payment of all debt obligations.

The Primary Government has "other liability" related Compensated Absences, Other Post-Employment Benefits (OPEB), and Net Pensions Liability as documented in the chart below. Pension contributions are budgeted annually and administered the Virginia Retirement System and a Solid Waste management Fund will begin to address landfill liability starting in FY19.

In Business-Type Activities, two of the three revenue bonds are held at zero % interest thru the Virginia Resources Authority. Although costly, over the last five years, the city realized the need for infrastructure improvements by beginning and completing projects as they are fiscally and feasibly possible through rate increases and strategic use of proprietary funds reserves.

The Component Unit School Board has "other liability" as well related to Compensated Absences (\$357,238), Other Post-Employment Benefits (OPEB) (\$1,781,441), and Net Pensions Liability (\$8,497,884) as documented in Note 9. The school system also has capital lease indebtedness in the amount of \$107,552 for school buses as of June 30, 2019.

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 \$28,673,918 with GO debt currently at \$25,591,444. As of June 30, 2019, the legal debt margin stands at \$3,082,474.

City of Covington's Outstanding Debt

Summary of Outstanding Debt						
For the Year Ended June 30, 2019 and June 30, 2018						
	Governmental Activities		Business-Type Activities		Total	
* Balances as restated July 1, 2018	2019	2018	2019	2018	2019	2018
General Obligation Refunding Bonds	\$ 12,638,000	\$ 13,206,000	\$ -		\$ 12,638,000	\$ 13,206,000
Deferred Amounts						
Bond Premiums	438,244	453,179	554,608	582,338	992,852	1,035,517
Literary Loans	10,340,000	10,785,000	-	-	10,340,000	10,785,000
Revenue Bonds	-	-	15,446,126	16,094,464	15,446,126	16,094,464
Capital leases (Note 8)	1,882,094	2,191,584	1,658,010	1,667,760	3,540,104	3,859,344
Landfill Closure/Post Closure Liability	-	-	4,156,575	6,420,876	4,156,575	6,420,876
Compensated Absences	231,596	248,036	73,288	77,621	304,884	325,657
Net OPEB Liabilities	1,352,454	1,210,923	428,286	390,229	1,780,740	1,601,152
Net Pension Liability	3,449,733	3,479,924	1,152,548	1,139,146	4,602,281	4,619,070
Total	\$ 30,332,121	\$ 31,574,646	\$ 23,469,441	\$ 26,372,434	\$ 53,801,562	\$ 57,947,080

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 2020 Fiscal Year Budget:

- The unemployment rate for the City of Covington decreased to 4.3% on June 30, 2019, from the prior year rate of 4.9% on June 30, 2018. With an increased emphasis on economic development, the city is hopeful the unemployment rate will decline.
- No rate increases in Business-Type Activity Funds in Water, Sewer, and Solid-Waste in the FY 2020 Budget
- Real Estate Taxes per \$100.00 of value did not increase from the current \$0.80 which still remains one of the lowest rates in Virginia for an independent city that also provides for full governmental services and an independent school system
- The local drone facility project between the Appalachian Regional Commission, Virginia DHCD, and the city continues with \$100,000 in city money budgeted for facility improvements match.
- The current budget includes \$111,000 to be set aside and again budgeted at the same level the next 3 years to create a city match of approximately \$444,000 for the Rayon Bridge Project currently projected to begin in 2022 or 2023.
- Health Insurance Costs provided by the Virginia Local Choice program for the city did not increase for the 2019-2020 Fiscal Year
- No unassigned fund balance was utilized to balance the 2019-2020 General Fund Budget.
- Public Service Corp Real Estate taxes continue to offset Machinery and Tools tax losses created by "green" legislation. This positive revenue stream will be impacted due to depreciation in the next 10 to 15 years unless the values continue to increase.
- The city has embarked on a paving assessment plan that is included in the budget for the fifth straight year after no such prior dedicated efforts. Additionally, paving improvements during FY 20 will also continue to be funded with "State of Good Repair" monies which the city applied for, as has received without a required match. It should be noted the \$275,000 local dollars is the highest budgeted amount for paving in city history by approximately \$100,000.
- The current budget includes \$100,000 specifically for storm water improvements which is a new infrastructure line item in the budget.
- The second phase of the Maple Avenue Streetscape Project will continue in FY 2019-2020. This downtown improvement project will complement a recently completed phase and once finished (projected FY 20), a third phase will begin. These improvements require a city match of 20% in the VDOT/Federal Grant Program.

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 Finance & Administration, 333 W. Locust Street, Covington, VA, 24426.

Basic Financial Statements

City of Covington, Virginia
Statement of Net Position
June 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	School Board
ASSETS				
Cash and cash equivalents	\$ 4,019,296	\$ 4,732,441	\$ 8,751,737	\$ 573,976
Investments	58,412	-	58,412	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,824,897	-	2,824,897	-
Other local taxes receivable	225,708	-	225,708	-
Accounts receivable	14,425	913,480	927,905	-
Due from component unit	326,706	-	326,706	-
Due from other governmental units	1,173,267	-	1,173,267	217,416
Inventories	-	-	-	8,644
Prepaid items	-	-	-	44,629
Restricted assets:				
Cash and cash equivalents	-	292,483	292,483	-
Investments	-	365,412	365,412	-
Capital assets not being depreciated:				
Land	1,967,944	-	1,967,944	89,663
Construction in progress	1,588,478	6,883,493	8,471,971	-
Capital assets, net of accumulated depreciation:				
Buildings and improvements	20,109,572	-	20,109,572	1,539,682
Machinery, equipment, and vehicles	1,845,071	1,846,543	3,691,614	298,557
Infrastructure	1,731,922	19,855,175	21,587,097	-
Total Assets	\$ 35,885,698	\$ 34,889,027	\$ 70,774,725	\$ 2,772,567
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	\$ 834,143	\$ -	\$ 834,143	\$ -
Pension related items	393,052	185,439	578,491	1,466,262
OPEB related items	148,787	51,910	200,697	211,481
Total Deferred Outflows of Resources	\$ 1,375,982	\$ 237,349	\$ 1,613,331	\$ 1,677,743
LIABILITIES				
Accounts payable	\$ 304,859	\$ 306,743	\$ 611,602	\$ 242,122
Accrued liabilities	73,436	21,207	94,643	233,191
Customers' deposits	-	180,700	180,700	-
Accrued interest payable	299,296	84,441	383,737	2,247
Due to primary government	-	-	-	326,706
Noncurrent liabilities:				
Due within one year	1,577,165	1,237,358	2,814,523	293,641
Due in more than one year	28,754,956	22,232,083	50,987,039	10,450,474
Total Liabilities	\$ 31,009,712	\$ 24,062,532	\$ 55,072,244	\$ 11,548,381
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - property taxes	\$ 2,288,365	\$ -	\$ 2,288,365	\$ -
Pension related items	291,856	142,035	433,891	1,468,358
OPEB related items	66,823	22,326	89,149	139,939
Total Deferred Inflows of Resources	\$ 2,647,044	\$ 164,361	\$ 2,811,405	\$ 1,608,297
NET POSITION				
Net investment in capital assets	\$ 3,774,182	\$ 10,926,467	\$ 14,700,649	\$ 1,820,350
Restricted:				
Grants	235,932	-	235,932	-
Debt Service	-	657,895	657,895	-
Cafeteria	-	-	-	4,226
Unrestricted	(405,190)	(684,879)	(1,090,069)	(10,530,944)
Total Net Position	\$ 3,604,924	\$ 10,899,483	\$ 14,504,407	\$ (8,706,368)

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, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Business-type Activities	Total	
			Contributions	Capital Grants and Contributions				
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 1,796,717	\$ 1,375	\$ 186,590	\$ -	\$ (1,608,752)	\$ (1,608,752)		
Judicial administration	210,420	-	-	-	(210,420)	(210,420)		
Public safety	4,190,785	411,586	364,317	41,121	(3,373,761)	(3,373,761)		
Public works	2,616,848	736	1,438,608	-	(1,177,504)	(1,177,504)		
Health and welfare	1,986,049	-	1,345,939	-	(640,110)	(640,110)		
Education	3,739,401	-	-	-	(3,739,401)	(3,739,401)		
Parks, recreation, and cultural	1,929,019	99,391	4,500	-	(1,825,128)	(1,825,128)		
Community development	152,906	700	-	39,937	(112,269)	(112,269)		
Interest on long-term debt	787,415	-	-	-	(787,415)	(787,415)		
Total governmental activities	\$ 17,409,560	\$ 513,788	\$ 3,339,954	\$ 81,058	\$ (13,474,760)	\$ (13,474,760)		
Business-type activities:								
Water	\$ 1,515,469	\$ 2,445,154	\$ -	\$ -	\$ 929,685	\$ 929,685		
Sewer	1,767,744	1,816,284	-	197,588	246,128	246,128		
Solid Waste	1,798,195	1,700,912	-	-	(97,283)	(97,283)		
Total business-type activities	\$ 5,081,408	\$ 5,962,350	\$ -	\$ 197,588	\$ 1,078,530	\$ 1,078,530		
Total primary government	\$ 22,490,968	\$ 6,476,138	\$ 3,339,954	\$ 278,646	\$ (13,474,760)	\$ 1,078,530	\$ (12,396,230)	
COMPONENT UNIT:								
School Board	\$ 11,522,356	\$ 39,978	\$ 8,114,600	\$ -	\$ -	\$ -	\$ -	\$ (3,367,778)
General revenues:								
General property taxes					\$ 8,837,051	\$ -	\$ 8,837,051	\$ -
Other local taxes:								
Local sales and use taxes					1,436,858	-	1,436,858	-
Consumers' utility taxes					400,909	-	400,909	-
Consumption taxes					24,573	-	24,573	-
Business license taxes					551,434	-	551,434	-
Motor vehicle licenses					180,494	-	180,494	-
Bank stock taxes					252,732	-	252,732	-
Recordation taxes					37,636	-	37,636	-
Hotel and motel room taxes					29,514	-	29,514	-
Restaurant food taxes					1,085,409	-	1,085,409	-
Tobacco taxes					94,495	-	94,495	-
Unrestricted revenues from use of money and property					111,452	10,720	122,172	1,362
Miscellaneous					53,955	33,559	87,514	102,696
Payments from the City of Covington					-	-	-	3,736,087
Grants and contributions not restricted to specific programs					858,084	-	858,084	-
Transfers					463,030	(463,030)	-	-
Total general revenues and transfers					\$ 14,417,626	\$ (418,751)	\$ 13,998,875	\$ 3,840,145
Change in net position								
					\$ 942,866	\$ 659,779	\$ 1,602,645	\$ 472,367
Net position - beginning, as restated								
					2,662,058	10,239,704	12,901,762	(9,178,735)
Net position - ending								
					\$ 3,604,924	\$ 10,899,483	\$ 14,504,407	\$ (8,706,368)

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

City of Covington, Virginia
Balance Sheet
Governmental Funds
June 30, 2019

	<u>General</u>	<u>City Capital Projects</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 3,084,956	\$ 934,340	\$ 4,019,296
Investments	58,412	-	58,412
Receivables (net of allowance for uncollectibles):			
Taxes receivable	2,824,897	-	2,824,897
Other local taxes receivables	225,708	-	225,708
Accounts receivable	14,425	-	14,425
Due from component unit	326,706	-	326,706
Intergovernmental receivable	1,173,267	-	1,173,267
Total assets	<u>\$ 7,708,371</u>	<u>\$ 934,340</u>	<u>\$ 8,642,711</u>
LIABILITIES			
Accounts payable	\$ 304,859	\$ -	\$ 304,859
Accrued liabilities	73,436	-	73,436
Total liabilities	<u>\$ 378,295</u>	<u>\$ -</u>	<u>\$ 378,295</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	\$ 2,793,378	\$ -	\$ 2,793,378
	<u>\$ 2,793,378</u>	<u>\$ -</u>	<u>\$ 2,793,378</u>
FUND BALANCES			
Restricted:			
Grants	\$ 235,932	\$ -	\$ 235,932
Capital projects	61,050	934,340	995,390
Unassigned	4,239,716	-	4,239,716
Total fund balances	<u>\$ 4,536,698</u>	<u>\$ 934,340</u>	<u>\$ 5,471,038</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,708,371</u>	<u>\$ 934,340</u>	<u>\$ 8,642,711</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, 2019

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	5,471,038
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$	1,967,944	
Buildings and improvements		20,109,572	
Machinery, equipment, and vehicles		1,845,071	
Infrastructure		1,731,922	
Construction in progress		1,588,478	27,242,987

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	\$	505,013	
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Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds

Pension related items	\$	393,052	
OPEB related items		148,787	541,839

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	\$	(12,638,000)	
Less: Deferred charges on refunding		834,143	
Literary Loans		(10,340,000)	
Capital lease		(1,882,094)	
Unamortized premium		(438,244)	
Compensated absences		(231,596)	
Accrued interest payable		(299,296)	
Net OPEB liabilities		(1,352,454)	
Net pension liability		(3,449,733)	(29,797,274)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

Pension related items	\$	(291,856)	
OPEB related items		(66,823)	(358,679)

Net position of governmental activities	\$	3,604,924
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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, 2019

	<u>General</u>	<u>City Capital Projects</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
REVENUES					
General property taxes	\$ 8,796,076	\$ -	\$ -	\$ -	\$ 8,796,076
Other local taxes	4,094,054	-	-	-	4,094,054
Permits, privilege fees, and regulatory licenses	18,006	-	-	-	18,006
Fines and forfeitures	3,324	-	-	-	3,324
Revenue from the use of money and property	111,422	-	-	30	111,452
Charges for services	492,458	-	-	-	492,458
Miscellaneous	53,955	-	-	-	53,955
Recovered costs	27,920	-	-	-	27,920
Intergovernmental:					
Commonwealth	4,221,398	-	-	-	4,221,398
Federal	57,698	-	-	-	57,698
Total revenues	<u>\$ 17,876,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ 17,876,341</u>
EXPENDITURES					
Current:					
General government administration	\$ 1,975,272	\$ -	\$ -	\$ -	\$ 1,975,272
Judicial administration	210,420	-	-	-	210,420
Public safety	4,131,406	-	-	-	4,131,406
Public works	2,619,371	-	-	-	2,619,371
Health and welfare	2,116,379	-	-	-	2,116,379
Education	3,140,064	-	-	-	3,140,064
Parks, recreation, and cultural	1,874,324	-	-	-	1,874,324
Community development	232,781	-	-	-	232,781
Nondepartmental	14,683	-	-	-	14,683
Capital projects	-	435,619	-	30	435,649
Debt service:					
Principal retirement	1,322,490	-	-	-	1,322,490
Interest and other fiscal charges	740,265	-	-	-	740,265
Total expenditures	<u>\$ 18,377,455</u>	<u>\$ 435,619</u>	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ 18,813,104</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (501,144)</u>	<u>\$ (435,619)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (936,763)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	\$ 474,832	\$ -	\$ -	\$ -	\$ 474,832
Transfers out	(10,904)	-	(898)	-	(11,802)
Total other financing sources (uses)	<u>\$ 463,928</u>	<u>\$ -</u>	<u>\$ (898)</u>	<u>\$ -</u>	<u>\$ 463,030</u>
Net change in fund balances	\$ (37,216)	\$ (435,619)	\$ (898)	\$ -	\$ (473,733)
Fund balances - beginning, as restated	4,573,914	1,369,959	898	-	5,944,771
Fund balances - ending	<u>\$ 4,536,698</u>	<u>\$ 934,340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,471,038</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, 2019

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

Net change in fund balances - total governmental funds	\$	(473,733)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital asset additions	\$ 1,042,510	
Depreciation expense	<u>(1,268,931)</u>	(226,421)

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		40,975
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal Payments:

General obligation bonds	\$ 568,000	
Capital lease	309,490	
Literary loans	<u>445,000</u>	1,322,490

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	\$ 16,440	
Amortization of bond premiums	14,935	
Amortization of deferred amount on refundings	(76,327)	
(Increase) decrease in accrued interest payable	14,242	
Items related to pension expense	326,538	
Items related to OPEB expense	<u>(16,273)</u>	279,555

Change in net position of governmental activities	\$	<u>942,866</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, 2019

	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,698,160	\$ 1,402,906	\$ 631,375	\$ 4,732,441
Accounts receivable, net of allowance for uncollectibles	501,990	273,853	137,637	913,480
Restricted current assets:				
Cash and cash equivalents	-	292,483	-	292,483
Investments	365,412	-	-	365,412
Total current assets	<u>\$ 3,565,562</u>	<u>\$ 1,969,242</u>	<u>\$ 769,012</u>	<u>\$ 6,303,816</u>
Noncurrent assets:				
Capital assets:				
Utility plant in service	\$ 8,803,424	\$ 22,680,371	\$ 3,198,653	\$ 34,682,448
Accumulated depreciation	(6,063,508)	(7,749,660)	(1,827,472)	(15,640,640)
Machinery and equipment	-	-	2,659,910	2,659,910
Construction in progress	6,883,493	-	-	6,883,493
Total capital assets	<u>\$ 9,623,409</u>	<u>\$ 14,930,711</u>	<u>\$ 4,031,091</u>	<u>\$ 28,585,211</u>
Buildings and improvements	<u>\$ 9,623,409</u>	<u>\$ 14,930,711</u>	<u>\$ 4,031,091</u>	<u>\$ 28,585,211</u>
Total assets	<u>\$ 13,188,971</u>	<u>\$ 16,899,953</u>	<u>\$ 4,800,103</u>	<u>\$ 34,889,027</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 70,177	\$ 47,792	\$ 67,470	\$ 185,439
OPEB related items	19,496	16,460	15,954	51,910
Total deferred outflows of resources	<u>\$ 89,673</u>	<u>\$ 64,252</u>	<u>\$ 83,424</u>	<u>\$ 237,349</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 42,740	\$ 58,671	\$ 205,332	\$ 306,743
Wages payable	8,007	6,619	6,581	21,207
Customers' deposits	81,087	61,620	37,993	180,700
Accrued interest payable	52,221	-	32,220	84,441
Compensated absences - current portion	28,743	15,371	10,852	54,966
Capital lease - current portion	-	-	209,362	209,362
Bonds payable - current portion	177,730	575,000	220,300	973,030
Total current liabilities	<u>\$ 390,528</u>	<u>\$ 717,281</u>	<u>\$ 722,640</u>	<u>\$ 1,830,449</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 5,101,878	\$ 7,970,926	\$ 1,954,900	\$ 15,027,704
Net OPEB liabilities	168,125	135,132	125,029	428,286
Compensated absences	9,581	5,124	3,617	18,322
Capital lease - net of current portion	-	-	1,448,648	1,448,648
Landfill closure/postclosure estimate	-	-	4,156,575	4,156,575
Net pension liability	430,841	360,602	361,105	1,152,548
Total noncurrent liabilities	<u>\$ 5,710,425</u>	<u>\$ 8,471,784</u>	<u>\$ 8,049,874</u>	<u>\$ 22,232,083</u>
Total liabilities	<u>\$ 6,100,953</u>	<u>\$ 9,189,065</u>	<u>\$ 8,772,514</u>	<u>\$ 24,062,532</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 41,893	\$ 41,094	\$ 59,048	\$ 142,035
OPEB related items	8,345	6,986	6,995	22,326
Total deferred inflows of resources	<u>\$ 50,238</u>	<u>\$ 48,080</u>	<u>\$ 66,043</u>	<u>\$ 164,361</u>
NET POSITION				
Net investment in capital assets	\$ 4,343,801	\$ 6,384,785	\$ 197,881	\$ 10,926,467
Restricted for debt service and bond covenants	365,412	292,483	-	657,895
Unrestricted	<u>2,418,240</u>	<u>1,049,792</u>	<u>(4,152,911)</u>	<u>(684,879)</u>
Total net position	<u>\$ 7,127,453</u>	<u>\$ 7,727,060</u>	<u>\$ (3,955,030)</u>	<u>\$ 10,899,483</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, 2019

	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
OPERATING REVENUES				
Charges for services:				
Water revenues	\$ 2,442,259	\$ -	\$ -	\$ 2,442,259
Sewer revenues	-	1,813,812	-	1,813,812
Penalties	2,895	2,472	1,723	7,090
Waste Collection Disposal	-	-	979,268	979,268
Landfill Charges	-	-	623,635	623,635
Sludge Fees	-	-	96,286	96,286
Miscellaneous	3,247	15,165	15,147	33,559
Total operating revenues	\$ 2,448,401	\$ 1,831,449	\$ 1,716,059	\$ 5,995,909
OPERATING EXPENSES				
Salaries and wages	\$ 458,304	\$ 369,041	\$ 363,821	\$ 1,191,166
Fringes	203,653	149,027	178,583	531,263
Contracted services	109,479	266,123	87,006	462,608
Other charges	352,548	404,508	215,703	972,759
Purchase of equipment	2,838	7,437	193,444	203,719
Lease/rent of equipment	462	143	2,487	3,092
OPEB expense	(668)	(310)	(2,077)	(3,055)
Depreciation	195,406	571,775	212,642	979,823
Landfill closure	-	-	459,528	459,528
Total operating expenses	\$ 1,322,022	\$ 1,767,744	\$ 1,711,137	\$ 4,800,903
Operating income (loss)	\$ 1,126,379	\$ 63,705	\$ 4,922	\$ 1,195,006
NONOPERATING REVENUES (EXPENSES)				
Loss on disposal of assets	\$ (10,736)	\$ -	\$ -	\$ (10,736)
Interest income	8,948	1,762	10	10,720
Interest expense	(182,711)	-	(87,058)	(269,769)
Total nonoperating revenues (expenses)	\$ (184,499)	\$ 1,762	\$ (87,048)	\$ (269,785)
Income (loss) before transfers	\$ 941,880	\$ 65,467	\$ (82,126)	\$ 925,221
Capital contributions and construction grants	\$ -	\$ 197,588	\$ -	\$ 197,588
Transfers in	-	146,969	10,904	157,873
Transfers out	(391,445)	(184,397)	(45,061)	(620,903)
Change in net position	\$ 550,435	\$ 225,627	\$ (116,283)	\$ 659,779
Net position - beginning, as restated	6,577,018	7,501,433	(3,838,747)	10,239,704
Net position - ending	\$ 7,127,453	\$ 7,727,060	\$ (3,955,030)	\$ 10,899,483

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, 2019

	Enterprise Funds			
	Water Fund	Sewer Fund	Solid Waste Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 2,444,101	\$ 1,870,449	\$ 1,686,844	\$ 6,001,394
Payments to suppliers	(491,852)	(860,660)	(372,829)	(1,725,341)
Payments to employees	(696,549)	(564,303)	(539,090)	(1,799,942)
Net cash provided by (used for) operating activities	\$ 1,255,700	\$ 445,486	\$ 774,925	\$ 2,476,111
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	\$ (391,445)	\$ (184,397)	\$ (45,061)	\$ (620,903)
Transfers from other funds	-	146,969	77,184	224,153
Net cash provided by (used for) noncapital financing activities	\$ (391,445)	\$ (37,428)	\$ 32,123	\$ (396,750)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of assets	\$ (341,973)	\$ (643,340)	\$ (175,761)	\$ (1,161,074)
Principal payments on bonds	(145,000)	(582,450)	(215,300)	(942,750)
Principal payments on lease obligations	-	-	(189,750)	(189,750)
Capital grants	-	197,588	-	197,588
Proceeds from indebtedness	-	294,412	180,000	474,412
Interest payments	(211,999)	-	(89,026)	(301,025)
Net cash provided by (used for) capital and related financing activities	\$ (698,972)	\$ (733,790)	\$ (489,837)	\$ (1,922,599)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	\$ 8,948	\$ 1,762	\$ 10	\$ 10,720
Net increase (decrease) in cash and cash equivalents	\$ 174,231	\$ (323,970)	\$ 317,221	\$ 167,482
Cash and cash equivalents - beginning	2,889,341	2,019,359	314,154	5,222,854
Cash and cash equivalents - ending	\$ 3,063,572	\$ 1,695,389	\$ 631,375	\$ 5,390,336
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 1,126,379	\$ 63,705	\$ 4,922	\$ 1,195,006
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	\$ 195,406	\$ 571,775	\$ 212,642	\$ 979,823
(Increase) decrease in accounts receivable	(17,313)	29,301	(41,276)	(29,288)
(Increase) decrease in deferred outflows of resources	(574)	(21,647)	(44,497)	(66,718)
Increase (decrease) in customer deposits	13,013	9,699	12,061	34,773
Increase (decrease) in accounts payable	(26,525)	(182,449)	177,368	(31,606)
Increase (decrease) in wages payable	380	87	259	726
Increase (decrease) in compensated absences	(523)	(1,966)	(1,844)	(4,333)
Increase (decrease) in net OPEB liabilities	15,853	11,838	10,366	38,057
Increase (decrease) in net pension liability	(16,751)	(1,635)	31,789	13,403
Increase (decrease) in closure/postclosure estimate	-	-	407,971	407,971
Increase (decrease) in deferred inflows of resources	(33,645)	(33,222)	5,164	(61,703)
Total adjustments	\$ 129,321	\$ 381,781	\$ 770,003	\$ 1,281,105
Net cash provided by (used for) operating activities	\$ 1,255,700	\$ 445,486	\$ 774,925	\$ 2,476,111

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

CITY OF COVINGTON, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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, the Charles Pinckney Jones Memorial Library, and the Alleghany-Covington Social Services Board.

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 Alleghany Highlands Regional 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 2019 was \$142,590.

The City participates in the Alleghany-Covington Social Services Board. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City is billed directly for costs associated with this organization on a monthly basis.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

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 City Capital Projects Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditures 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 Construction Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for School capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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

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

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.

Starting in fiscal year 2019, the City reported landfill operations in separate funds (see Note 26-Restatement of Prior Financial Statement). The activities of the system are accounted for in the Solid Waste Fund.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *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").

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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

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

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.

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 \$120,048 at June 30, 2019 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 5th and June 5th. Personal property taxes are due and collectible annually on December 5th and June 5th. The City bills and collects its own property taxes.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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

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

6. Capital Assets (Continued)

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

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

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

Assets	Years
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. 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, 2019

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

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

9. Fund Balance

The following classifications of fund balance 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 18% expenditures/operating revenues. The City considers a balance of less than 18% 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, 2019

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 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 short of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of the net pension liability and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension liability and net OPEB liabilities measurement date. For more detailed information on these items, reference the related notes.

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 in inflow of resources (revenue) until this 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, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liabilities and net OPEB liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

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.

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

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

12. Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI, HIC and Teacher HIC OPEB Plans and the additions to/deductions from the VRS OPEB Plans' net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

In addition to the VRS related OPEB, the City and School Board allows their retirees to stay on the health insurance plan after retirement. The retiree is required to pay the blended premium cost creating and implicit subsidy OPEB liability. In addition, retirees receive a monthly stipend towards their health insurance cost until the retiree is Medicare eligible.

13. 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. 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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

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

14. Net Position Flow Assumption

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

Note 2 - Stewardship, Compliance, and Accountability:

A. Budgetary Information

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

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

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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

A. Budgetary Information (Continued)

9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2019, there were no departments with expenses over appropriations.

C. Deficit Fund Equity

At June 30, 2019, there were no funds with deficit fund equity.

Note 3 - Deposits and Investments:

Deposits

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

Investments

Statutes authorize the City and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2019 and June 30, 2018, the City had 1,176 shares of MetLife Trust stock valued at \$49.67 and \$46.63 per share for a total value of \$58,412 and \$54,837, respectively.

The City's rated debt investments as of June 30, 2019 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 3 - Deposits and Investments: (Continued)

Investments (Continued)

City's Rated Debt Investment Values	
Rated Debt Investments	Fair Quality Ratings
	AAA/m
State Non-arbitrage Pool (SNAP)	\$ 374,359

The City's interest rate risk as of June 30, 2019:

Interest Rate Risk		
Investment type	Fair Value	Less than 1 yr
State Non-arbitrage Pool (SNAP)	\$ 374,359	\$ 374,359
Metlife Stock	58,412	58,412

External Investment Pool

The value of the positions in the external investment pool (State Non-Arbitrage Pool) is the same as the value of the pool shares. SNAP is an amortized cost basis portfolio. 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

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 4 - Fair Value: (Continued)

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.

The City has the following recurring fair value measurements as of June 30, 2019:

Investment	6/30/2019	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	\$ 58,412	\$ 58,412	\$ -	\$ -

Note 5 - Due from Other Governmental Units:

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

	Primary Government Governmental	Component Unit School Board
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 237,683	\$ -
State sales tax	-	113,146
Non-categorical aid	300,108	-
Categorical aid - shared expenses	12,357	-
Categorical aid - Comprehensive Services Act	1,950	-
Categorical aid - VPA	8,392	-
Categorical aid - other	278,678	-
<u>Federal Government:</u>		
Categorical aid - VPA	1,502	-
Categorical aid - other	332,597	-
School federal programs	-	104,270
Totals	<u>\$ 1,173,267</u>	<u>\$ 217,416</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 6 - Interfund Transfers:

Interfund transfers for the year ended June 30, 2019, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 474,832	\$ 10,904
Water Fund	-	391,445
Sewer Fund	146,969	184,397
Solid Waste Fund	10,904	45,061
School Debt Reserve Fund	-	898
Total	<u>\$ 632,705</u>	<u>\$ 632,705</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.

Note 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, 2019:

	<u>Balance July 1, 2018, as restated</u>	<u>Increases/ Issuances</u>	<u>Decreases/ Retirements</u>	<u>Balance June 30, 2019</u>
Direct borrowings and placements				
General obligation bonds	\$ 13,206,000	\$ -	\$ (568,000)	\$ 12,638,000
Deferred amounts:				
Premium	453,179	-	(14,935)	438,244
Literary loans	10,785,000	-	(445,000)	10,340,000
Total direct borrowings and placements	<u>\$ 24,444,179</u>	<u>\$ -</u>	<u>\$ (1,027,935)</u>	<u>\$ 23,416,244</u>
Capital lease (note 8)	2,191,584	-	(309,490)	1,882,094
Compensated absences	248,036	169,587	(186,027)	231,596
Net OPEB liabilities	1,210,923	232,662	(91,131)	1,352,454
Net pension liability	3,479,924	1,596,930	(1,627,121)	3,449,733
Total	<u>\$ 31,574,646</u>	<u>\$ 1,999,179</u>	<u>\$ (3,241,704)</u>	<u>\$ 30,332,121</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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,	Direct Borrowings and Placements			
	General Obligation Bonds		Literary Loans	
	Principal	Interest	Principal	Interest
2020	\$ 594,000	\$ 458,471	\$ 455,000	\$ 206,800
2021	620,000	434,983	460,000	197,700
2022	651,000	410,085	470,000	188,500
2023	678,000	389,891	480,000	179,100
2024	698,000	373,239	490,000	169,500
2025-2029	3,752,000	1,511,152	2,600,000	696,500
2030-2034	1,060,000	1,032,431	2,875,000	425,900
2035-2039	1,495,000	848,816	2,510,000	126,700
2040-2041	3,090,000	134,375	-	-
Totals	\$ 12,638,000	\$ 5,593,443	\$ 10,340,000	\$ 2,190,700

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 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
Direct Borrowings and Placements							
GO Refunding Bond	2.47%	9/29/2015	2028	\$159,000-\$210,000 a+	\$ 2,410,000	\$ 1,718,000	\$ 174,000
VPSA GO Refunding Bond	5.05%-4.30%	11/21/2013	2041	\$90,000-\$1,580,000 a+	11,630,000	10,270,000	370,000
QZAB GO Bond	0.00%	11/30/2016	2031	\$50,000	750,000	650,000	50,000
Literary Loans	2.00%	2/16/2016	2038	\$425,000-\$645,000 a+	11,645,000	10,340,000	455,000
Total Direct Borrowings and Placements						\$ 22,978,000	\$ 1,049,000
Deferred Amount:							
Unamortized Premium					\$ 496,278	\$ 438,244	\$ 15,789
Capital Leases:							
Fire Truck	1.84%	4/30/2015	2022	\$77,524 a	\$ 506,992	\$ 225,263	\$ 73,717
Financial Software	1.84%	4/30/2015	2022	\$99,955 a	653,685	290,441	95,046
VML-VACO Equip Series	2.17%	10/23/2017	2028	\$293,450-\$323,381 a+	1,568,987	1,366,390	145,351
Total Capital Leases						\$ 1,882,094	\$ 314,114
Other Obligations:							
Compensated Absences						\$ 231,596	\$ 198,262
Net OPEB Liabilities						1,352,454	-
Net pension liability						3,449,733	-
Total Other Obligations						\$ 5,033,783	\$ 198,262
Total Long-Term Obligations						\$ 30,332,121	\$ 1,577,165

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

(a) - annual installment including principal and interest

The City's general obligations bonds are subject to the State Aid Intercept Program. Under terms of the program, the City state aid is redirected to bond holders to cure any event(s) of default.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 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, 2019:

	Balance July 1, 2018, as restated	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2019
Direct borrowings and placements				
Revenue bonds	\$ 16,094,464	\$ 294,412	\$ (942,750)	\$ 15,446,126
Deferred amount:				
Premium	582,338	-	(27,730)	554,608
Total direct borrowings and placements	\$ 16,676,802	\$ 294,412	\$ (970,480)	\$ 16,000,734
Capital lease (note 8)	1,667,760	180,000	(189,750)	1,658,010
Landfill closure/postclosure estimate	6,420,876	-	(2,264,301)	4,156,575
Net OPEB liabilities	390,229	79,109	(41,052)	428,286
Compensated absences	77,621	53,883	(58,216)	73,288
Net pension liability	1,139,146	566,635	(553,233)	1,152,548
Total	\$ 26,372,434	\$ 1,174,039	\$ (4,077,032)	\$ 23,469,441

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

Year Ending June 30,	Direct Borrowings and Placements					
	Revenue Bonds					
	Water		Sewer		Solid Waste	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 164,900	\$ 205,265	\$ 575,000	\$ -	\$ 220,300	\$ 47,083
2021	174,900	197,796	575,000	-	225,300	42,003
2022	179,900	191,743	575,000	-	230,500	36,807
2023	184,900	185,434	575,000	-	235,800	31,491
2024	194,900	176,965	575,000	-	241,300	26,052
2025-2029	1,099,500	755,469	2,875,000	-	1,022,000	47,270
2030-2034	1,359,500	495,789	2,369,251	-	-	-
2035-2039	1,657,050	182,811	136,125	-	-	-
Totals	\$ 5,015,550	\$ 2,391,272	\$ 8,255,376	\$ -	\$ 2,175,200	\$ 230,706

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 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
Direct Borrowings and Placements							
VRA Revenue Bond	0.00%	12/1/2010	2031	\$250,000 a	\$ 5,000,000	\$ 3,244,251	\$ 250,000
VRA Revenue Bond	0.00%	5/10/2012	2032	\$162,500-325,000 a	6,500,000	5,011,125	325,000
VRA Revenue Bond	2.04-4.83%	4/4/2013	2039	\$125,000-345,000 a+	5,395,000	4,725,000	150,000
VRA Revenue Bond	0.00%	4/10/2018	2038	\$7,450 sa	298,000	290,500	-
VML-VACO General Obligation Bond	2.28%	10/16/2017	2028	\$215,300-264,300 a+	\$ 2,390,500	2,175,200	220,300
Total Direct Borrowings and Placements						\$ 15,446,076	\$ 945,300
Deferred Amount:							
Unamortized Premium					\$ 720,990	\$ 554,608	\$ 27,730
Capital Leases:							
Garbage Truck	1.84%	4/30/2015	2022	\$24,989 a	\$ 163,421	\$ 72,610	\$ 23,761
Garbage Truck	3.15%	10/25/2018	2024	\$16,761-\$19,292 sa	180,000	163,239	34,318
VML-VACO Equip Series	17.00%	10/23/2017	2028	\$293,450-\$323,381 a+	1,568,987	1,422,161	151,283
Total Capital Leases						\$ 1,658,010	\$ 209,362
Other Obligations:							
Compensated Absences						\$ 73,288	\$ 54,966
Landfill Closure/Post-Closure Liability						4,156,575	-
Net OPEB Liabilities						428,286	-
Net Pension Liability						1,152,548	-
Total Other Obligations						\$ 5,810,697	\$ 54,966
Total Long-Term Obligations						\$ 23,469,391	\$ 1,237,358

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

(a) - annual principal installments shown; no interest

(sa) - semi-annual installments including interest, if applicable

The City's general obligations bonds are subject to the State Aid Intercept Program. Under terms of the program, the City state aid is redirected to bond holders to cure any event(s) of default.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 8 - Capital Lease:

Primary Government:

The City has entered into a lease agreement as lessee for the financing of the acquisition of a fire truck, garbage truck, refuse truck, financial software, landfill equipment, and an E-911 project. 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, 2019, the assets related to the capital leases and accumulated depreciation are as follows:

	Governmental Activities				Solid Waste Management Fund			
	Fire Truck	Financial Software(1)	E911 Project (1)	Total	Garbage Truck	Refuse Truck	Landfill Equipment	Total
Cost	\$ 504,134	\$ 608,872	\$ 569,099	\$ 1,682,105	\$ 162,500	\$ 175,761	\$ 1,607,282	\$ 1,945,543
Accumulated Depreciation	(167,584)	-	-	(167,584)	(51,644)	(48)	(176,230)	(227,922)
Net Book Value	<u>\$ 336,550</u>	<u>\$ 608,872</u>	<u>\$ 569,099</u>	<u>\$ 1,514,521</u>	<u>\$ 110,856</u>	<u>\$ 175,713</u>	<u>\$ 1,431,052</u>	<u>\$ 1,717,621</u>

(1) The financial software and E911 project are recorded in construction in progress and not yet being depreciated.

The future minimum lease obligation and the net present value of minimum lease payments as of June 30, 2019, were as follows:

Fiscal Year Ended	Governmental Activities	Solid Waste Management Fund
2020	\$ 350,903	\$ 244,683
2021	349,309	243,024
2022	347,697	241,346
2023	168,590	214,662
2024	166,943	193,353
2025-2028	650,945	677,515
Total minimum lease payments	<u>\$ 2,034,387</u>	<u>\$ 1,814,583</u>
Less: amount representing interest	<u>(152,293)</u>	<u>(156,573)</u>
Present value of minimum lease payments	<u>\$ 1,882,094</u>	<u>\$ 1,658,010</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 8 - Capital Lease: (Continued)

Component Unit School Board:

The Component Unit School Board has entered into a lease agreement as lessee for the financing of the acquisition of two school buses. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. As of June 30, 2019, the assets related to the capital lease and accumulated depreciation are as follows:

	<u>School Buses</u>
Cost	\$ 161,445
Accumulated Depreciation	<u>(25,389)</u>
Net Book Value	<u><u>\$ 136,056</u></u>

The future minimum lease obligation and the net present value of minimum lease payments as of June 30, 2019, were as follows:

<u>Fiscal Year Ended</u>	<u>Capital Leases</u>
2020	\$ 28,928
2021	28,928
2022	28,928
2023	28,928
Total minimum lease payments	<u>\$ 115,712</u>
Less: amount representing interest	<u>(8,160)</u>
Present value of minimum lease payments	<u><u>\$ 107,552</u></u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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, 2019:

	Balance July 1, 2018	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2019
Capital lease	\$ 132,517	\$ -	\$ (24,965)	\$ 107,552
Compensated absences	389,140	259,953	(291,855)	357,238
Net OPEB liabilities	1,837,070	253,426	(309,055)	1,781,441
Net pension liability	9,393,360	2,399,344	(3,294,820)	8,497,884
	<u>\$ 11,752,087</u>	<u>\$ 2,912,723</u>	<u>\$ (3,920,695)</u>	<u>\$ 10,744,115</u>

Details of long-term indebtedness:

	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:		
Capital lease	\$ 107,552	\$ 25,712
Compensated absences	357,238	267,929
Net OPEB obligation	1,781,441	-
Net pension liability	8,497,884	-
Total Long-term Obligations	<u>\$ 10,744,115</u>	<u>\$ 293,641</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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 a 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.

Benefit Structures

The System administers three different benefit structures for covered employees - Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of creditable service or age 50 with at least 25 years of creditable service. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of creditable service.
- b. Employees hired 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 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of creditable service or age 50 with at least 25 years of creditable service. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of creditable service.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 10 - Pension Plan: (Continued)

Benefit Structures (Continued)

- c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.7% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.7% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier 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.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of creditable service are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 10 - Pension Plan: (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2017 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	93	22
Inactive members:		
Vested inactive members	5	4
Non-vested inactive members	9	1
Inactive members active elsewhere in VRS	15	9
Total inactive members	29	14
Active members	97	18
Total covered employees	219	54

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.

The City's contractually required employer contribution rate for the year ended June 30, 2019 was 13.49% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 \$497,259 and \$506,736 for the years ended June 30, 2019 and June 30, 2018, respectively.

The Component Unit School Board's contractually required employer contribution rate for nonprofessional employees for the year ended June 30, 2019 was 16.04% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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 Component Unit School Board's nonprofessional employees were \$63,262 and \$59,896 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Liability

The City's and Component Unit School Board's (nonprofessional) net pension liabilities were measured as of June 30, 2018. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2017, rolled forward to the measurement date of June 30, 2018.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 10 - Pension Plan: (Continued)

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, 2017, 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, 2018.

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.

Mortality rates:

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 10 - Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Mortality rates: (Continued)

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 10 - Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits:

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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

Largest 10 - Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 10 - Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits: (Continued)

Mortality rates: (Continued)

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 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:

<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>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the City and Component Unit School Board (nonprofessional) was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. Through the fiscal year ended 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, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, participating employers and school divisions are assumed to continue 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, 2017	\$ 24,715,140	\$ 20,096,071	\$ 4,619,069
Changes for the year:			
Service cost	\$ 386,694	\$ -	\$ 386,694
Interest	1,667,681	-	1,667,681
Differences between expected and actual experience	61,596	-	61,596
Impact in change of proportion	-	-	-
Contributions - employer	-	506,756	(506,756)
Contributions - employee	-	181,061	(181,061)
Net investment income	-	1,459,431	(1,459,431)
Benefit payments, including refunds of employee contributions	(1,782,249)	(1,782,249)	-
Administrative expenses	-	(13,221)	13,221
Other changes	-	(1,269)	1,269
Net changes	\$ 333,722	\$ 350,509	\$ (16,787)
Balances at June 30, 2018	\$ 25,048,862	\$ 20,446,580	\$ 4,602,282

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**Note 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, 2017	\$ 2,872,132	\$ 2,313,772	\$ 558,360
Changes for the year:			
Service cost	\$ 40,730	\$ -	\$ 40,730
Interest	194,875	-	194,875
Differences between expected and actual experience	(79,990)	-	(79,990)
Assumption changes	-	-	-
Contributions - employer	-	57,411	(57,411)
Contributions - employee	-	17,692	(17,692)
Net investment income	-	168,648	(168,648)
Benefit payments, including refunds of employee contributions	(176,394)	(176,394)	-
Administrative expenses	-	(1,512)	1,512
Other changes	-	(148)	148
Net changes	\$ (20,779)	\$ 65,697	\$ (86,476)
Balances at June 30, 2018	\$ 2,851,353	\$ 2,379,469	\$ 471,884

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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
City			
Net Pension Liability (Asset)	\$ 7,507,832	\$ 4,602,282	\$ 2,145,017
Component Unit School Board (nonprofessional)			
Net Pension Liability (Asset)	765,000	471,884	221,238

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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, 2019, the City and Component Unit School Board (nonprofessional) recognized pension expense of \$53,094 and \$(102,530), respectively. At June 30, 2019, 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	\$ 43,372	\$ 165,528	\$ -	\$ 31,216
Change in assumptions	-	61,967	-	-
Change in proportionate share	37,860	37,860		
Net difference between projected and actual earnings on pension plan investments	-	168,536	-	16,142
Employer contributions subsequent to the measurement date	497,259	-	63,262	-
Total	\$ 578,491	\$ 433,891	\$ 63,262	\$ 47,358

\$497,259 and \$63,262 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Primary Government	Component Unit School Board (nonprofessional)
2020	\$ (77,988)	\$ (21,011)
2021	(55,233)	(391)
2022	(201,139)	(23,897)
2023	(18,299)	(2,059)
Thereafter	-	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 10 - Pension Plan: (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

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 is included 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 provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each School Division's contractually required employer contribution rate for the year ended June 30, 2019 was 15.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined 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 School Board were \$846,000 and \$976,000 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the school division reported a liability of \$8,026,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2018 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, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the school division's proportion was 0.06825% as compared to 0.07184% at June 30, 2017.

For the year ended June 30, 2019, the school division recognized pension expense of \$434,000. Since there was a change in proportionate share between measurement dates, 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.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 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)

At June 30, 2019, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 687,000
Change in assumptions	96,000	-
Net difference between projected and actual earnings on pension plan investments	-	170,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	461,000	564,000
Employer contributions subsequent to the measurement date	<u>846,000</u>	<u>-</u>
Total	\$ <u>1,403,000</u>	\$ <u>1,421,000</u>

\$846,000 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

<u>Year ended June 30</u>	
2020	\$ (154,000)
2021	(171,000)
2022	(327,000)
2023	(137,000)
Thereafter	(75,000)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

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, 2017, 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, 2018.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.95%
Investment rate of return	7.0%, net of pension plan investment expenses, 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-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 75 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 10 - Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Actuarial Assumptions (Continued)

Mortality rates: (Continued)

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2018, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

		<u>Teacher Employee Retirement Plan</u>
Total Pension Liability	\$	46,679,555
Plan Fiduciary Net Position		34,919,563
Employers' Net Pension Liability (Asset)	\$	<u>11,759,992</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		74.81%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

The long-term expected rate of return and discount rate information previously described also apply to this plan.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 10 - Pension Plan: (Continued)

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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$ 12,260,000	\$ 8,026,000	\$ 4,521,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Aggregate Pension Information

	Primary Government				Component Unit School Board			
			Net Pension				Net Pension	
	Deferred Outflows	Deferred Inflows	Liability (Asset)	Pension Expense	Deferred Outflows	Deferred Inflows	Liability (Asset)	Pension Expense
VRS Pension Plans:								
Primary Government	\$ 578,491	\$ 433,891	\$ 4,602,282	\$ 53,094	\$ -	\$ -	\$ -	\$ -
School Board Nonprofessional	-	-	-	-	63,262	47,358	471,884	(402,530)
School Board Professional	-	-	-	-	1,403,000	1,421,000	8,026,000	434,000
Totals	\$ 578,491	\$ 433,891	\$ 4,602,282	\$ 53,094	\$ 1,466,262	\$ 1,468,358	\$ 8,497,884	\$ 31,470

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 11—Healthcare OPEB Plan:

Plan Description

In addition to the pension benefits described in Note 10, the City administers a cost-sharing defined benefit healthcare plan, The City of Covington Postretirement Healthcare Plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the City's pension plans. The plan does not issue a publicly available financial report.

Benefits Provided

Postemployment benefits are provided to eligible retirees include Medical and Dental. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. All permanent employees of the City who meet eligibility requirements of the pension plan are eligible to receive postemployment health care benefits. In addition, the City provides a fixed basic death benefit for all retirees.

Plan Membership

At June 30, 2018 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	98
Total retirees with coverage	<u>3</u>
Total	<u><u>101</u></u>

Contributions

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the City Council. The amount paid by the City for OPEB as the benefits came due during the year ended June 30, 2019 was \$30,146.

Total OPEB Liability

The City's total OPEB liability was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 11—Healthcare OPEB Plan: (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	4.00%
Discount Rate	3.62% at June 30, 2018 (based on Muni 20 year Aa is published by Fidelity Investments)
Health Care Cost Trend	6.00% for 2019/2020 grading down to a 4.0% (by 0.5% increments)

Mortality rates are based on the RP-2014 Healthy Lives (separate tables for pre- and post-retirement and for males and females), projected to decrease by Scale BB to 2024. The other demographic assumptions are based on tables used for VRS pension evaluations.

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

Discount Rate

The discount rate is based on the 20 year, high quality muni bond index published by Fidelity investments.

Changes in Total OPEB Liability

		Primary Government Total OPEB Liability
Balances at June 30, 2017 (Measurement Date)	\$	1,093,151
Changes for the year:		
Service cost		40,948
Interest		39,837
Difference between actual and expected experience		138,106
Change in assumptions		(5,351)
Benefit payments		(30,146)
Net changes		183,394
Balances at June 30, 2018 (Measurement Date)	\$	1,276,545

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 11—Healthcare OPEB Plan: (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.62%) or one percentage point higher (4.62%) than the current discount rate:

Rate		
1% Decrease (2.62%)	Current Discount Rate (3.62%)	1% Increase (4.62%)
\$ 1,382,368	\$ 1,276,545	\$ 1,180,088

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current healthcare cost trend rates:

Rates		
Healthcare Cost		
1% Decrease (5.00%)	Trend (6.00%)	1% Increase (7.00%)
\$ 1,197,488	\$ 1,276,545	\$ 1,355,157

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 11—Healthcare OPEB Plan: (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2019, the City recognized OPEB expense in the amount of \$92,223. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 118,377	\$ -
Changes in assumptions	-	42,224
Employer contributions subsequent to the measurement date	30,146	-
Total	<u>\$ 148,523</u>	<u>\$ 42,224</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2020	\$ 11,438
2021	11,438
2022	11,438
2023	11,438
2024	11,436
Thereafter	18,965
Total	<u>\$ 76,153</u>

Additional disclosures on changes in net OPEB liability and related ratios can be found in the required supplementary information following the notes to the financial statements.

Component Unit - School Board

Plan Description

In addition to the pension benefits described in Note 10, the Component Unit - School Board administers a single-employer defined benefit healthcare plan, The Covington City Public Schools Postretirement Healthcare Plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the School Board' pension plans. The plan does not issue a publicly available financial report.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 11—Healthcare OPEB Plan: (Continued)

Component Unit - School Board (Continued)

Benefits Provided

Postemployment benefits are provided to eligible retirees include Medical and Dental. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. All permanent employees of the School Board who meet eligibility requirements of the pension plan are eligible to receive postemployment health care benefits. In addition, the School Board provides a fixed basic death benefit for all retirees.

Plan Membership

At June 30, 2018 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	130
Total retirees with coverage	<u>11</u>
Total	<u><u>141</u></u>

Contributions

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the School Board. The amount paid by the School Board for OPEB as the benefits came due during the year ended June 30, 2019 was \$25,398.

Total OPEB Liability

The School Board's total OPEB liability was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 11—Healthcare OPEB Plan: (Continued)

Component Unit - School Board (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	4.00%
Discount Rate	3.62% at June 30, 2018 (based on Muni 20 year Aa is published by Fidelity Investments)
Health Care Cost Trend	6.00% for 2019/2020 grading down to a 4.0% (by 0.5% increments)

Mortality rates are based on the RP-2014 Healthy Lives (separate tables for pre- and post-retirement and for males and females), projected to decrease by Scale BB to 2024.

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

Discount Rate

The discount rate is based on the 20 year, high quality muni bond index published by Fidelity Investments.

Changes in Total OPEB Liability

		<u>School Board Total OPEB Liability</u>
Balances at June 30, 2017 (Measurement Date)	\$	389,070
Changes for the year:		
Service cost		13,817
Interest		13,891
Effect of economic/demographic gains or losses		14,718
Changes in assumptions		(1,657)
Benefit changes		(25,398)
Net changes		15,371
Balances at June 30, 2018 (Measurement Date)	\$	<u>404,441</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 11—Healthcare OPEB Plan: (Continued)**Component Unit - School Board (Continued)***Sensitivity of the Total OPEB Liability to Changes in the Discount Rate*

The following amounts present the total OPEB liability of the Component Unit School Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.62%) or one percentage point higher (4.62%) than the current discount rate:

Rates		
1% Decrease (2.62%)	Current Discount (3.62%)	1% Increase (4.62%)
\$ 435,715	\$ 404,441	\$ 374,925

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Component Unit School Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current healthcare cost trend rates:

Rates		
1% Decrease (5.00%)	Healthcare Cost Trend (6.00%)	1% Increase (7.00%)
\$ 383,268	\$ 404,441	\$ 421,691

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 11—Healthcare OPEB Plan: (Continued)

Component Unit - School Board (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2019, the Component Unit - School Board recognized OPEB expense in the amount of \$26,949. At June 30, 2019, the Component Unit - School Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 13,083	\$ -
Changes in assumptions	-	16,939
Employer contributions subsequent to the measurement date	25,398	-
Total	<u>\$ 38,481</u>	<u>\$ 16,939</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2020	\$ (759)
2021	(759)
2022	(759)
2023	(759)
2024	(759)
Thereafter	(61)
Total	<u>\$ (3,856)</u>

Additional disclosures on changes in net OPEB liability and related ratios can be found in the required supplementary information following the notes to the financial statements.

Note 12-Group Life Insurance (GLI) Program (OPEB Plan):

Plan Description

The Group Life Insurance (GLI) Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

The specific information for GLI Program OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Program was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Program is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of creditable service, the minimum benefit payable was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Contributions

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability.

Contributions to the GLI Program from the City were \$19,734 and \$19,680 for the years ended June 30, 2019 and June 30, 2018, respectively.

Contributions to the GLI Program from the Component Unit-School Board (nonprofessional) were \$2,000 and \$2,000 for the years ended June 30, 2019 and June 30, 2018, respectively.

Contributions to the GLI Program from the Component Unit-School Board (professional) were \$28,000 and \$32,000 for the years ended June 30, 2019 and June 30, 2018, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB

At June 30, 2019, the City reported a liability of \$303,000 for its proportionate share of the Net GLI OPEB Liability.

At June 30, 2019, the Component Unit-School Board (nonprofessional) reported a liability of \$29,000 for its proportionate share of the Net GLI OPEB Liability.

At June 30, 2019, the Component Unit-School Board (professional) reported a liability of \$436,000 for its proportionate share of the Net GLI OPEB Liability.

The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers.

At June 30, 2018, the City's proportion was 0.01990% as compared to 0.02038% at June 30, 2017.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB (Continued)

At June 30, 2018, the Component Unit-School Board (non-professional) proportion was 0.00193% as compared to 0.00214% at June 30, 2017.

At June 30, 2018, the Component Unit-School Board (professional) proportion was 0.02876% as compared to 0.03054% at June 30, 2017.

For the year ended June 30, 2019, the City did not recognize GLI OPEB expense.

For the year ended June 30, 2019, the Component-Unit School Board (nonprofessional) recognized GLI OPEB expense of \$(3,000). Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

For the year ended June 30, 2019, the Component-Unit School Board (professional) recognized GLI OPEB expense of \$2,000 GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Primary Government		Component-Unit School Board (Non-professional)		Component-Unit School Board (Professional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,000	\$ 5,000	\$ 1,000	\$ 1,000	\$ 21,000	\$ 8,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	10,000	-	1,000	-	14,000
Change in assumptions	-	13,000	-	1,000	-	18,000
Changes in proportion	-	10,000	-	-	20,000	25,000
Employer contributions subsequent to the measurement date	19,734	-	2,000	-	28,000	-
Total	\$ 34,734	\$ 38,000	\$ 3,000	\$ 3,000	\$ 69,000	\$ 65,000

\$19,734, \$2,000, and \$28,000 reported as deferred outflows of resources related to the GLI OPEB resulting from the City's, Component-Unit School Board's (Non-professional), and Component-Unit School Board's (Professional), respectively, contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB (Continued)

Year Ended June 30	Primary Government	Component Unit- School Board (Non-professional)	Component Unit- School Board (Professional)
2019	\$ (6,000)	\$ (2,000)	\$ (7,000)
2020	(6,000)	-	(7,000)
2021	(6,000)	-	(7,000)
2022	(3,000)	-	(3,000)
2023	-	-	-
Thereafter	(2,000)	-	-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, 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 OPEB liabilities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and Retirement Rates	Updated to a more current mortality table - RP-2014 projected to 2020
Withdrawal Rates	Increased age 50 rates and lowered rates at older ages
Disability Rates	Adjusted termination rates to better fit experience at each age and service year
Salary Scale	Adjusted rates to better match experience
Line of Duty Disability	No change
	Decreased rate from 60% to 45%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)*NET GLI OPEB Liability*

The net OPEB liability (NOL) for the GLI Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2018, NOL amounts for the GLI Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
		<hr/>
Total GLI OPEB Liability	\$	3,113,508
Plan Fiduciary Net Position		1,594,773
Employers' Net GLI OPEB Liability (Asset)	\$	<hr/> <u>1,518,735</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		51.22%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)*Long-Term Expected Rate of Return*

The long-term expected rate of return on the System's 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 System's 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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB 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 guidance 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 ended June 30, 2018, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 12-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)*Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate*

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB 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		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
City's proportionate share of the Group Life Insurance Program			
Net OPEB Liability	\$ 395,000	\$ 303,000	\$ 227,000
Component Unit-School Board (Non-professional) proportionate share of the Group Life Insurance Program			
Net OPEB Liability	\$ 38,000	\$ 29,000	\$ 22,000
Component Unit-School Board (Professional) proportionate share of the Group Life Insurance Program			
Net OPEB Liability	\$ 570,000	\$ 436,000	\$ 328,000

GLI Program Fiduciary Net Position

Detailed information about the GLI Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan):

Plan Description

The Political Subdivision Health Insurance Credit (HIC) Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision HIC Program upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision HIC Program OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The Political Subdivision Retiree HIC Program was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and retire with at least 15 years of service credit. Eligible employees include full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan. These employees are enrolled automatically upon employment.

Benefit Amounts

The Political Subdivision Retiree HIC Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.

HIC Program Notes

The monthly HIC benefit cannot exceed the individual premium amount. There is no HIC for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	Primary Government	Component Unit - School Board Nonprofessional
Inactive members or their beneficiaries currently receiving benefits	43	10
Inactive members		
Vested inactive members	-	1
Total inactive members	43	11
Active members	90	18
Total covered employees	176	29

Contributions

The contribution requirements for active employees is governed by §51.1-1402(E) 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. The City's contractually required employer contribution rate for the year ended June 30, 2019 was 0.50% of covered employee compensation. The Component Unit - School Board's (Non-professional) contractually required employer contribution rate for the year ended June 30, 2019 was 1.30% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate 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 from the City to the Health Insurance Credit Program were \$17,440 and \$17,319 for the years ended June 30, 2019 and June 30, 2018, respectively. Contributions from the Component Unit - School board (Non-professional) to the Health Insurance Credit Program were \$5,000 and \$3,000 for the year ended June 30, 2019 and June 30, 2018, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Net HIC OPEB Liability

The City and Component Unit-School Board’s (Non-professional) net HIC OPEB liability was measured as of June 30, 2018. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018.

Inflation	2.5%
Salary increases, including inflation:	
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, 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 the OPEB liabilities.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)*Long-Term Expected Rate of Return*

The long-term expected rate of return on the System's 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 System's 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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that 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 ended June 30, 2018, the rate contributed by the entity for the HIC OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Changes in Net HIC OPEB Liability - Primary Government

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2017	\$ 306,000	\$ 105,000	\$ 201,000
Changes for the year:			
Service cost	\$ 4,696	\$ -	\$ 4,696
Interest	20,523	-	20,523
Differences between expected and actual experience	(879)	-	(879)
Contributions - employer	-	17,319	(17,319)
Net investment income	-	7,271	(7,271)
Benefit payments	(24,663)	(24,663)	-
Administrative expenses	-	(164)	164
Rounding	(479)	(196)	(283)
Other changes	-	(565)	565
Net changes	\$ (802)	\$ (998)	\$ 196
Balances at June 30, 2018	\$ 305,198	\$ 104,002	\$ 201,196

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)***Changes in Net HIC OPEB Liability - Component Unit-School Board (Nonprofessional)*

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2017	\$ 61,000	\$ 10,000	\$ 51,000
Changes for the year:			
Service cost	\$ 1,000	\$ -	\$ 1,000
Interest	4,000	-	4,000
Differences between expected and actual experience	1,000	-	1,000
Contributions - employer		3,000	(3,000)
Net investment income	-	1,000	(1,000)
Benefit payments	(5,000)	(5,000)	-
Other changes	-	(1,000)	1,000
Net changes	\$ 1,000	\$ (2,000)	\$ 3,000
Balances at June 30, 2018	\$ 62,000	\$ 8,000	\$ 54,000

Sensitivity of the City's HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the City's HIC Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the City's net HIC OPEB 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		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
City's Net HIC OPEB Liability	\$ 229,627	\$ 201,196	\$ 176,577

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Sensitivity of the Component Unit-School Board's (Nonprofessional) HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the Component Unit-School Board's (Nonprofessional) HIC Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the Component Unit-School Board's (Non-professional) net HIC OPEB 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		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Component Unit-School Board (Non-professional)			
Net HIC OPEB Liability	\$ 59,000	\$ 54,000	\$ 49,000

HIC Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Program OPEB

For the year ended June 30, 2019, the City and Component Unit-School Board (Nonprofessional) recognized HIC Program OPEB expense of \$16,124 and \$4,000, respectively. At June 30, 2019, the City and Component Unit-School Board (Non-professional) reported deferred outflows of resources and deferred inflows of resources related to the City and Component Unit-School Board's (Non-professional) HIC Program 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	\$ -	\$ 708	\$ -	\$ -
Net difference between projected and actual earnings on HIC OPEB plan investments	-	2,732	-	-
Change in assumptions	-	5,483	-	-
Employer contributions subsequent to the measurement date	17,440	-	5,000	-
Total	\$ 17,440	\$ 8,923	\$ 5,000	\$ -

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 13-Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)*HIC Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Program OPEB: (Continued)*

\$17,440 and \$5,000 reported as deferred outflows of resources related to the HIC OPEB resulting from the City and Component Unit-School Board's (Nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

Year Ended June 30	Primary Government	Component Unit- School Board (Nonprofessional)
2020	\$ (2,771)	\$ -
2021	(2,771)	-
2022	(2,770)	-
2023	(587)	-
2024	(24)	-
Thereafter	-	-

HIC Program Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Program is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan):*Plan Description*

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee HIC Program. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Plan Description (Continued)

The specific information for the Teacher HIC Program OPEB, including eligibility, coverage, and benefits is described below:

Eligible Employees

The Teacher Employee Retiree HIC Program was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit. Eligible employees include full-time permanent (professional) salaried employees of public school divisions covered under VRS. These employees are enrolled automatically upon employment.

Benefit Amounts

The Teacher Employee HIC Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For Teacher and other professional school employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either: \$4.00 per month, multiplied by twice the amount of service credit, or \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

HIC Program Notes

The monthly HIC benefit cannot exceed the individual premium amount. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

Contributions

The contribution requirements for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2019 was 1.20% of covered employee compensation for employees in the VRS Teacher Employee HIC Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate 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 from the school division to the VRS Teacher Employee HIC Program were \$66,000 and \$74,000 for the years ended June 30, 2019 and June 30, 2018, respectively.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Teacher Employee HIC Program OPEB Liabilities, Teacher Employee HIC Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Program OPEB

At June 30, 2019, the school division reported a liability of \$858,000 for its proportionate share of the VRS Teacher Employee HIC Program Net OPEB Liability. The Net VRS Teacher Employee HIC Program OPEB Liability was measured as of June 30, 2018 and the total VRS Teacher Employee HIC Program OPEB liability used to calculate the Net VRS Teacher Employee HIC Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee HIC Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee HIC Program OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the school division's proportion of the VRS Teacher Employee HIC Program was 0.06751% as compared to 0.07134% at June 30, 2017.

For the year ended June 30, 2019, the school division recognized VRS Teacher Employee HIC Program OPEB expense of \$68,000. Since there was a change in proportionate share between measurement dates, a portion of the VRS Teacher Employee HIC Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee HIC Program OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 4,000
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	-	1,000
Change in assumptions	-	7,000
Change in proportion	30,000	43,000
Employer contributions subsequent to the measurement date	<u>66,000</u>	<u>-</u>
Total	<u>\$ 96,000</u>	<u>\$ 55,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019**Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)**

Teacher Employee HIC Program OPEB Liabilities, Teacher Employee HIC Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Program OPEB (Continued)

\$66,000 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>		
2020	\$	(4,000)
2021		(4,000)
2022		(4,000)
2023		(4,000)
2024		(4,000)
Thereafter		(5,000)

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee HIC Program was based on an actuarial valuation as of June 30, 2017, 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, 2018.

Inflation	2.5%
Salary increases, including inflation:	
Teacher employees	3.5%-5.95%
Investment rate of return	7.0%, net of investment expenses, 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 OPEB liabilities.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Mortality Rates - Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)*Net Teacher Employee HIC OPEB Liability*

The net OPEB liability (NOL) for the Teacher Employee HIC Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, NOL amounts for the VRS Teacher Employee HIC Program is as follows (amounts expressed in thousands):

		Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	\$	1,381,313
Plan Fiduciary Net Position		111,639
Teacher Employee net HIC OPEB Liability (Asset)	\$	<u>1,269,674</u>
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability		8.08%

The total Teacher Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on the VRS 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 VRS 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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	2.50%
		*Expected arithmetic nominal return	<u>7.30%</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)*Long-Term Expected Rate of Return (Continued)*

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total Teacher Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2018, the rate contributed by each school division for the VRS Teacher Employee HIC Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB 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 Teacher Employee HIC OPEB liability.

Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the VRS Teacher Employee HIC Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net HIC OPEB 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		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan			
Net HIC OPEB Liability	\$ 958,000	\$ 858,000	\$ 772,000

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 14-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee HIC Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 15 - Aggregate OPEB Information:

	Primary Government				Component Unit School Board			
	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
City Stand-Alone Plan (Note 11)	\$ 148,523	\$ 42,224	\$ 1,276,545	\$ 92,223	\$ -	\$ -	\$ -	\$ -
School Stand-Alone Plan (Note 11)	-	-	-	-	38,481	16,939	404,441	26,949
VRS OPEB Plans:								
Group Life Insurance Program (Note 12):								
City	34,734	38,000	303,000	-	-	-	-	-
School Board Nonprofessional	-	-	-	-	3,000	3,000	29,000	(3,000)
School Board Professional	-	-	-	-	69,000	65,000	436,000	2,000
City Health Insurance Credit Program (Note 13)	17,440	8,923	201,196	16,124	5,000	-	54,000	4,000
Teacher Health Insurance Credit Program (Note 14)	-	-	-	-	96,000	55,000	858,000	68,000
Totals	<u>\$ 200,697</u>	<u>\$ 89,147</u>	<u>\$ 1,780,741</u>	<u>\$ 108,347</u>	<u>\$ 211,481</u>	<u>\$ 139,939</u>	<u>\$ 1,781,441</u>	<u>\$ 97,949</u>

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 16 - Capital Assets:

Capital asset activity for the year ended June 30, 2019 was as follows:

Primary Government:

	Beginning Balance	Landfill Transfer	Increases	Decreases	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 1,967,944	\$ -	\$ -	\$ -	\$ 1,967,944
Construction in progress	792,056	-	796,422	-	1,588,478
Total capital assets not being depreciated	<u>\$ 2,760,000</u>	<u>\$ -</u>	<u>\$ 796,422</u>	<u>\$ -</u>	<u>\$ 3,556,422</u>
Capital assets, being depreciated:					
Buildings and improvements	\$ 33,617,622	\$ (3,190,153)	\$ -	\$ -	\$ 30,427,469
Infrastructure	2,487,417	(8,500)	-	-	2,478,917
Machinery and equipment	10,320,668	(2,484,149)	246,088	-	8,082,607
Total capital assets being depreciated	<u>\$ 46,425,707</u>	<u>\$ (5,682,802)</u>	<u>\$ 246,088</u>	<u>\$ -</u>	<u>\$ 40,988,993</u>
Accumulated depreciation:					
Buildings and improvements	\$ (10,517,700)	\$ 955,335	\$ (755,532)	\$ -	\$ (10,317,897)
Infrastructure	(652,888)	709	(94,816)	-	(746,995)
Machinery and equipment	(6,477,739)	658,786	(418,583)	-	(6,237,536)
Total accumulated depreciation	<u>\$ (17,648,327)</u>	<u>\$ 1,614,830</u>	<u>\$ (1,268,931)</u>	<u>\$ -</u>	<u>\$ (17,302,428)</u>
Total capital assets being depreciated, net	<u>\$ 28,777,380</u>	<u>\$ (4,067,972)</u>	<u>\$ (1,022,843)</u>	<u>\$ -</u>	<u>\$ 23,686,565</u>
Governmental activities capital assets, net	<u>\$ 31,537,380</u>	<u>\$ (4,067,972)</u>	<u>\$ (226,421)</u>	<u>\$ -</u>	<u>\$ 27,242,987</u>
Business-type activities:					
Capital assets, not being depreciated:					
Construction in progress	\$ 6,824,875	\$ -	\$ 749,219	\$ (690,601)	\$ 6,883,493
Capital assets, being depreciated:					
Equipment & Vehicles	\$ -	\$ 2,484,149	\$ 175,761	\$ -	\$ 2,659,910
Infrastructure	30,672,549	3,198,653	875,650	(64,404)	34,682,448
Total capital assets being depreciated	<u>\$ 30,672,549</u>	<u>\$ 5,682,802</u>	<u>\$ 1,051,411</u>	<u>\$ (64,404)</u>	<u>\$ 37,342,358</u>
Accumulated depreciation:					
Equipment & Vehicles	\$ -	\$ (658,785)	\$ (154,582)	\$ -	\$ (813,367)
Infrastructure	(13,099,655)	(956,045)	(825,241)	53,668	(14,827,273)
Total accumulated depreciation	<u>\$ (13,099,655)</u>	<u>\$ (1,614,830)</u>	<u>\$ (979,823)</u>	<u>\$ 53,668</u>	<u>\$ (15,640,640)</u>
Total capital assets being depreciated, net	<u>\$ 17,572,894</u>	<u>\$ 4,067,972</u>	<u>\$ 71,588</u>	<u>\$ (10,736)</u>	<u>\$ 21,701,718</u>
Business-type activities capital assets, net	<u>\$ 24,397,769</u>	<u>\$ 4,067,972</u>	<u>\$ 820,807</u>	<u>\$ (701,337)</u>	<u>\$ 28,585,211</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 16 - Capital Assets:

Primary Government: (Continued)

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

Governmental activities:	
General government administration	\$ 18,294
Public safety	254,190
Public works	207,622
Health and welfare	4,373
Education	599,337
Parks, recreation, and cultural	<u>185,115</u>
Total depreciation expense-governmental activities	\$ <u>1,268,931</u>
Business-type activities:	
Water and sewer funds	\$ <u>979,823</u>
Total depreciation expense-Primary Government	\$ <u><u>2,248,754</u></u>

Discretely Presented Component Unit

Capital asset activity for the School Board for the year ended June 30, 2019 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	\$ 3,607,317	\$ -	\$ -	\$ 3,607,317
Machinery and equipment	<u>1,287,398</u>	<u>60,665</u>	-	<u>1,348,063</u>
Total capital assets being depreciated	\$ <u>4,894,715</u>	\$ <u>60,665</u>	\$ -	\$ <u>4,955,380</u>
Accumulated depreciation:				
Buildings and improvements	\$ (1,963,257)	\$ (104,378)	\$ -	\$ (2,067,635)
Machinery and equipment	<u>(985,361)</u>	<u>(64,145)</u>	-	<u>(1,049,506)</u>
Total accumulated depreciation	\$ <u>(2,948,618)</u>	\$ <u>(168,523)</u>	\$ -	\$ <u>(3,117,141)</u>
Total capital assets being depreciated, net	\$ <u>1,946,097</u>	\$ <u>(107,858)</u>	\$ -	\$ <u>1,838,239</u>
Governmental activities capital assets, net	\$ <u><u>2,035,760</u></u>	\$ <u><u>(107,858)</u></u>	\$ -	\$ <u><u>1,927,902</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 17 - 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 VML Insurance Programs 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 18 - 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 guidance 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 19 - 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. \$6,568,556 is the total estimated closure and post-closure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2019. 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 2019. 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 63.3% full, including cells A, B and C. The life expectancy for cells A, B and C is 7.6 years based on an average annual disposal rate. The amount reported in the City's books is 63.3% of the total estimate, or \$4,156,575. 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, 2019

Note 20 - Surety Bonds:

Fidelity & Deposit Company of Maryland-Surety:	
Clay Goodman, Interim 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 21 - 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 2019	\$ 2,263,501
Prepaid property taxes	24,864
Total deferred revenue for governmental activities	\$ 2,288,365
Property taxes receivable due prior to June 30, 2019, not collected within 60 days	\$ 478,378
Other taxes	14,426
Personal property taxes relief	12,209
Total unavailable revenue for governmental funds	\$ 2,793,378

Note 22 - Construction Commitments:

	Original Contract	Amount Paid As of 6/30/2019	Remaining Contract Amount	Accounts Payable	Retainage Payable
Peters Mtn Landfill Project	\$ 158,785	\$ -	\$ -	\$ -	\$ 7,939

Note 23 - Concentrations:

The City of Covington, Virginia relies heavily on the two businesses for tax revenue and employment of citizens. MeadWestvaco directly comprises 14.1% of the real estate tax levy, not including 86.8% of the Public Service Corporation tax levy, and 43.8% of the personal property taxes, including machinery and tools tax levy, for a combined 45.8% of the total City's 2019 tax levy. Ingevity Virginia Corp. Chemical directly comprises 30.2% of the machinery and tools tax levy and 11.0% of the total City's 2019 tax levy.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 24 - Litigation:

As of June 30, 2019, there were no matters of litigation involving the City which would materially affect the City's financial position should a court decision on pending matters not be favorable.

Note 25-Adoption of Accounting Principles:

The City implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

Note 26-Restatement of Prior Financial Statements:

Beginning balances have been restated for the current fiscal year as detailed below:

	Fund Balance	Net Position	
	General	Governmental	Business-Type
	Fund	Activities	Activities
Fund Balance, July 1, 2018, as previously stated	\$ 4,990,490	\$ (3,848,961)	\$ 14,078,451
Adjustment related to separation of landfill to new fund			
Cash-reserves	(314,154)	(314,154)	314,154
Fund receivables	(162,640)	(162,640)	162,640
Fund payables	60,218	60,218	(60,218)
Capital assets (net)	-	(4,067,972)	4,067,972
Interest payable	-	34,188	(34,188)
Accrued leave	-	16,313	(16,313)
OPEB items	-	118,147	(118,147)
Pension items	-	347,783	(347,783)
Landfill estimate	-	6,420,876	(3,748,604)
Long-term debt	-	4,058,260	(4,058,260)
Fund Balance, July 1, 2018, as restated	\$ <u>4,573,914</u>	\$ <u>2,662,058</u>	\$ <u>10,239,704</u>

Note 27-Upcoming Pronouncements:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

Note 27-Upcoming Pronouncements: (Continued)

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

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, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
General property taxes	\$ 8,632,159	\$ 8,632,159	\$ 8,796,076	\$ 163,917
Other local taxes	3,743,804	3,743,804	4,094,054	350,250
Permits, privilege fees, and regulatory licenses	7,700	7,700	18,006	10,306
Fines and forfeitures	4,500	4,500	3,324	(1,176)
Revenue from the use of money and property	49,450	49,450	111,422	61,972
Charges for services	465,325	465,325	492,458	27,133
Miscellaneous	22,750	77,470	53,955	(23,515)
Recovered costs	23,000	23,000	27,920	4,920
Intergovernmental:				
Commonwealth	4,072,255	4,850,636	4,221,398	(629,238)
Federal	1,500	342,543	57,698	(284,845)
Total Revenues	<u>\$ 17,022,443</u>	<u>\$ 18,196,587</u>	<u>\$ 17,876,311</u>	<u>\$ (320,276)</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,804,158	\$ 2,018,194	\$ 1,975,272	\$ 42,922
Judicial administration	209,290	210,455	210,420	35
Public safety	3,990,891	4,318,813	4,131,406	187,407
Public works	2,351,770	3,024,661	2,619,371	405,290
Health and welfare	1,823,412	2,393,791	2,116,379	277,412
Education	3,237,450	3,283,361	3,140,064	143,297
Parks, recreation, and cultural	1,791,203	2,208,690	1,874,324	334,366
Community development	162,117	484,490	232,781	251,709
Nondepartmental	43,715	26,121	14,683	11,438
Debt service:				
Principal retirement	1,252,500	1,322,492	1,322,490	2
Interest and other fiscal charges	735,214	740,267	740,265	2
Total Expenditures	<u>\$ 17,401,720</u>	<u>\$ 20,031,335</u>	<u>\$ 18,377,455</u>	<u>\$ 1,653,880</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (379,277)</u>	<u>\$ (1,834,748)</u>	<u>\$ (501,144)</u>	<u>\$ 1,333,604</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 379,277	\$ 474,247	\$ 474,832	\$ 585
Transfers out	-	(10,904)	(10,904)	-
Total other financing sources (uses)	<u>\$ 379,277</u>	<u>\$ 463,343</u>	<u>\$ 463,928</u>	<u>\$ 585</u>
Net change in fund balances	\$ -	\$ (1,371,405)	\$ (37,216)	\$ 1,334,189
Fund balances - beginning	-	1,371,405	4,573,914	3,202,509
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,536,698</u>	<u>\$ 4,536,698</u>

City of Covington, Virginia
Schedule of Changes in Net Pension Liability and Related Ratios
Primary Government
For the Measurement Dates of June 30, 2014 through June 30, 2018

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 386,694	\$ 388,395	\$ 384,532	\$ 381,110	\$ 364,378
Interest	1,667,681	1,659,955	1,624,606	1,592,529	1,553,775
Differences between expected and actual experience	61,596	(272,688)	(272,328)	(248,359)	-
Changes in assumptions	-	(145,142)	-	-	-
Benefit payments, including refunds of employee contributions	(1,782,249)	(1,258,039)	(1,205,609)	(1,328,466)	(1,400,603)
Net change in total pension liability	\$ 333,722	\$ 372,481	\$ 531,201	\$ 396,814	\$ 517,550
Total pension liability - beginning	24,715,140	24,342,659	23,811,458	23,414,644	22,897,094
Total pension liability - ending (a)	\$ 25,048,862	\$ 24,715,140	\$ 24,342,659	\$ 23,811,458	\$ 23,414,644
Plan fiduciary net position					
Contributions - employer	\$ 506,756	\$ 508,232	\$ 624,975	\$ 600,630	\$ 548,162
Contributions - employee	181,061	184,142	183,862	177,538	175,244
Net investment income	1,459,431	2,220,416	317,657	823,292	2,543,910
Benefit payments, including refunds of employee contributions	(1,782,249)	(1,258,039)	(1,205,609)	(1,328,466)	(1,400,603)
Administrative expense	(13,221)	(13,102)	(11,660)	(11,662)	(14,164)
Other	(1,269)	(1,964)	(135)	(171)	134
Net change in plan fiduciary net position	\$ 350,509	\$ 1,639,685	\$ (90,910)	\$ 261,161	\$ 1,852,683
Plan fiduciary net position - beginning	20,096,071	18,456,386	18,547,296	18,286,135	16,433,452
Plan fiduciary net position - ending (b)	\$ 20,446,580	\$ 20,096,071	\$ 18,456,386	\$ 18,547,296	\$ 18,286,135
City's net pension liability - ending (a) - (b)	\$ 4,602,282	\$ 4,619,069	\$ 5,886,273	\$ 5,264,162	\$ 5,128,509
Plan fiduciary net position as a percentage of the total pension liability	81.63%	81.31%	75.82%	77.89%	78.10%
Covered payroll	\$ 3,767,567	\$ 3,756,414	\$ 3,712,605	\$ 3,552,497	\$ 3,463,949
City's net pension liability as a percentage of covered payroll	122.16%	122.96%	158.55%	148.18%	148.05%

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 Changes in Net Pension Liability and Related Ratios
Component Unit School Board (nonprofessional)
For the Measurement Dates of June 30, 2014 through June 30, 2018

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 40,730	\$ 45,396	\$ 56,372	\$ 62,270	\$ 58,304
Interest	194,875	203,784	199,107	195,457	191,627
Differences between expected and actual experience	(79,990)	(185,027)	5,132	(2,890)	-
Changes in assumptions	-	(8,346)	-	-	-
Benefit payments, including refunds of employee contributions	(176,394)	(189,746)	(197,840)	(207,569)	(182,868)
Net change in total pension liability	(20,779)	(133,939)	62,771	47,268	67,063
Total pension liability - beginning	2,872,132	3,006,071	2,943,300	2,896,032	2,828,969
Total pension liability - ending (a)	2,851,353	2,872,132	3,006,071	2,943,300	2,896,032
Plan fiduciary net position					
Contributions - employer	\$ 57,411	\$ 61,643	\$ 58,524	\$ 76,341	\$ 91,712
Contributions - employee	17,692	19,124	18,057	23,812	26,021
Net investment income	168,648	257,051	35,959	101,524	312,953
Benefit payments, including refunds of employee contributions	(176,394)	(189,746)	(197,840)	(207,569)	(182,868)
Administrative expense	(1,512)	(1,557)	(1,449)	(1,474)	(1,725)
Other	(148)	(226)	(16)	(19)	17
Net change in plan fiduciary net position	65,697	146,289	(86,765)	(7,385)	246,110
Plan fiduciary net position - beginning	2,313,772	2,167,483	2,254,248	2,261,633	2,015,523
Plan fiduciary net position - ending (b)	2,379,469	2,313,772	2,167,483	2,254,248	2,261,633
School Division's net pension liability - ending (a) - (b)	\$ 471,884	\$ 558,360	\$ 838,588	\$ 689,052	\$ 634,399
Plan fiduciary net position as a percentage of the total pension liability	83.45%	80.56%	72.10%	76.59%	78.09%
Covered-employee payroll	\$ 367,065	\$ 392,295	\$ 366,880	\$ 476,240	\$ 511,831
School Division's net pension liability as a percentage of covered-employee payroll	128.56%	142.33%	228.57%	144.69%	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
 Component Unit - School Board (Professional)

For the Measurement Dates of June 30, 2014 through June 30, 2018

	2018	2017	2016	2015	2014
Employer's Proportion of the Net Pension Liability (Asset)	0.06825%	0.07184%	0.06817%	0.06588%	0.07007%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 8,026,000	\$ 8,835,000	\$ 9,553,000	\$ 8,292,000	\$ 8,468,000
Employer's Covered Payroll	5,464,358	5,629,861	5,196,952	4,891,913	5,125,379
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	146.88%	156.93%	183.82%	169.50%	165.22%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.81%	72.92%	68.28%	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 - Pension
For the Years Ended June 30, 2010 through June 30, 2019

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					
2019	\$ 497,259	\$ 497,259	\$ -	\$ 3,794,890	13.10%
2018	506,756	506,756	-	3,767,567	13.45%
2017	518,385	518,385	-	3,756,414	13.80%
2016	624,974	624,974	-	3,712,605	16.83%
2015	600,630	600,630	-	3,552,497	16.91%
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%
Component Unit School Board (nonprofessional)					
2019	\$ 63,262	\$ 63,262	\$ -	\$ 404,575	15.64%
2018	59,896	59,896	-	367,065	16.32%
2017	61,747	61,747	-	392,295	15.74%
2016	58,731	58,731	-	366,880	16.01%
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%
Component Unit School Board (professional)					
2019	\$ 846,000	\$ 846,000	\$ -	\$ 5,469,846	15.47%
2018	976,000	976,000	-	5,464,358	17.86%
2017	820,000	820,000	-	5,629,861	14.57%
2016	721,000	721,000	-	5,196,952	13.87%
2015	710,000	710,000	-	4,891,913	14.51%
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%

Current year contributions are from City records and prior year contributions are from the VRS actuarial valuation performed each year.

City of Covington, Virginia
Notes to Required Supplementary Information
Pension Plan
For the Year Ended June 30, 2019

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Component Unit School Board - Professional Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

City of Covington, Virginia
Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios
Primary Government
For the Measurement Dates of June 30, 2017 through June 30, 2018

	2018	2017
Total OPEB liability		
Service cost	\$ 40,948	\$ 46,022
Interest	39,837	31,712
Changes in assumptions	(5,351)	(52,691)
Differences between expected and actual experience	138,106	-
Benefit payments	(30,146)	(35,555)
Net change in total OPEB liability	\$ 183,394	\$ (10,512)
Total OPEB liability - beginning	1,093,151	1,103,663
Total OPEB liability - ending	\$ 1,276,545	\$ 1,093,151
Covered payroll	\$ 3,958,074	\$ 3,909,193
City's total OPEB liability (asset) as a percentage of covered payroll	32.25%	27.96%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

City of Covington, Virginia
Notes to Required Supplementary Information - City OPEB
For the Year Ended June 30, 2019

Valuation Date: 6/30/2017
Measurement Date: 6/30/2018

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Individual Entry Age Normal, with Normal Cost determined as a percent of pay
Discount Rate	3.62% at June 30, 2018
Inflation	2.50%
Healthcare Trend Rate	6.00% in 2018, decreasing 0.50% per year to ultimate rate of 4.00%
Salary Increase Rates	4.00%
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates are based on the RP-2014 Healthy Lives (separate tables for pre- and post- retirement and for males and females), projected to decrease by Scale BB to 2024. The other demographic assumptions are based on tables used for VRS pension valuations.

City of Covington, Virginia
Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios
Component Unit School Board
For the Measurement Dates of June 30, 2017 through June 30, 2018

	2018	2017
Total OPEB liability		
Service cost	\$ 13,817	\$ 15,642
Interest	13,891	13,504
Effect of Economic/Demographic Gains or Losses	14,718	-
Changes in assumptions	(1,657)	(19,886)
Plan changes	-	(68,275)
Benefit payments	(25,398)	(28,585)
Net change in total OPEB liability	\$ 15,371	\$ (87,600)
Total OPEB liability - beginning	389,070	476,670
Total OPEB liability - ending	\$ <u>404,441</u>	\$ <u>389,070</u>
Covered payroll	\$ 5,656,342	\$ 5,656,342
Component Unit School Board's total OPEB liability (asset) as a percentage of covered payroll	7.15%	6.88%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

City of Covington, Virginia
Notes to Required Supplementary Information - Component Unit School Board OPEB
For the Year Ended June 30, 2019

Valuation Date: 6/30/2017
Measurement Date: 6/30/2018

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Individual Entry Age Normal, with Normal Cost determined as a percent of pay
Discount Rate	3.62% at June 30, 2018
Inflation	2.50%
Healthcare Trend Rate	6.00% in 2018, decreasing 0.50% per year to ultimate rate of 4.00%
Salary Increase Rates	4.00%
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates are based on the RP-2014 Healthy Lives (separate tables for pre- and post- retirement and for males and females), projected to decrease by Scale BB to 2024. The other demographic assumptions are based on tables used for VRS pension valuations.

City of Covington, Virginia
Schedule of Employer's Share of Net OPEB Liability
Group Life Insurance Program
For the Measurement Dates of June 30, 2016 through June 30, 2018

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
Primary Government					
2018	0.01990%	\$ 303,000	\$ 3,784,442	8.01%	51.22%
2017	0.02038%	307,000	3,758,508	8.17%	48.86%
2016	0.02066%	361,000	3,712,605	9.72%	48.86%
Component Unit School Board (nonprofessional)					
2018	0.00193%	\$ 29,000	\$ 367,065	7.90%	51.22%
2017	0.00214%	32,000	394,617	8.11%	48.86%
2016	0.00221%	39,000	397,683	9.81%	48.86%
Component Unit School Board (professional)					
2018	0.02876%	\$ 436,000	\$ 5,469,192	7.97%	51.22%
2017	0.03054%	460,000	5,633,192	8.17%	51.22%
2016	0.02892%	506,000	5,197,408	9.74%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2016 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2010 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2019	\$ 19,734	\$ 19,734	\$ -	\$ 3,794,890	0.52%
2018	19,680	19,680	-	3,784,442	0.52%
2017	19,544	19,544	-	3,758,508	0.52%
2016	17,821	17,821	-	3,712,605	0.48%
2015	17,052	17,052	-	3,552,497	0.48%
2014	16,627	16,627	-	3,463,949	0.48%
2013	17,019	17,019	-	3,545,708	0.48%
2012	9,696	9,696	-	3,462,887	0.28%
2011	9,695	9,695	-	3,462,358	0.28%
2010	7,323	7,323	-	3,607,428	0.20%
Component Unit School Board (nonprofessional)					
2019	\$ 2,000	\$ 2,000	\$ -	\$ 404,575	0.49%
2018	2,000	2,000	-	367,065	0.54%
2017	2,000	2,000	-	394,617	0.51%
2016	1,909	1,909	-	397,683	0.48%
2015	2,295	2,295	-	478,088	0.48%
2014	2,457	2,457	-	511,831	0.48%
2013	2,343	2,343	-	488,200	0.48%
2012	1,447	1,447	-	516,615	0.28%
2011	1,397	1,397	-	498,789	0.28%
2010	1,065	1,065	-	521,675	0.20%
Component Unit School Board (professional)					
2019	\$ 28,000	\$ 28,000	\$ -	\$ 5,473,771	0.51%
2018	32,000	32,000	-	5,469,192	0.59%
2017	29,000	29,000	-	5,633,192	0.51%
2016	24,948	24,948	-	5,197,408	0.48%
2015	23,511	23,511	-	4,898,194	0.48%
2014	24,596	24,596	-	5,124,136	0.48%
2013	24,414	24,414	-	5,086,179	0.48%
2012	15,283	15,283	-	5,458,215	0.28%
2011	14,594	14,594	-	5,211,998	0.28%
2010	10,667	10,667	-	5,246,021	0.20%
2009	14,607	14,607	-	5,409,878	0.27%

Current year contributions are from City records and prior year contributions are from the VRS actuarial valuation performed each year.

City of Covington, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2019

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Teachers

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

City of Covington, Virginia
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios
Primary Government
Health Insurance Credit (HIC) Program
For the Measurement Dates of June 30, 2018 and 2017

	2018	2017
Total HIC OPEB Liability		
Service cost	\$ 4,696	\$ 4,000
Interest	20,523	21,000
Differences between expected and actual experience	(879)	-
Changes in assumptions	-	(9,000)
Benefit payments	(24,663)	(20,000)
Other changes	(479)	1,000
Net change in total HIC OPEB liability	\$ (802)	\$ (3,000)
Total HIC OPEB Liability - beginning	306,000	309,000
Total HIC OPEB Liability - ending (a)	<u>\$ 305,198</u>	<u>\$ 306,000</u>
Plan fiduciary net position		
Contributions - employer	\$ 17,319	\$ 17,000
Net investment income	7,271	11,000
Benefit payments	(24,663)	(20,000)
Administrative expense	(164)	
Rounding	(196)	
Other	(565)	1,000
Net change in plan fiduciary net position	\$ (998)	\$ 9,000
Plan fiduciary net position - beginning	105,000	96,000
Plan fiduciary net position - ending (b)	<u>\$ 104,002</u>	<u>\$ 105,000</u>
City's net HIC OPEB liability - ending (a) - (b)	\$ 201,196	\$ 201,000
Plan fiduciary net position as a percentage of the total HIC OPEB liability	34.08%	34.31%
Covered payroll	\$ 3,463,554	\$ 3,466,331
City's net HIC OPEB liability as a percentage of covered payroll	5.81%	5.80%

Schedule is intended to show information for 10 years. Information prior to the 2018 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios
Component Unit School Board (nonprofessional)
Health Insurance Credit Program (HIC)
For the Measurement Dates of June 30, 2018 and 2017

	2018	2017
Total HIC OPEB Liability		
Service cost	\$ 1,000	\$ 1,000
Interest	4,000	4,000
Differences between expected and actual experience	1,000	-
Benefit payments	(5,000)	(5,000)
Other changes	-	(1,000)
Net change in total HIC OPEB liability	\$ 1,000	\$ (1,000)
Total HIC OPEB Liability - beginning	61,000	62,000
Total HIC OPEB Liability - ending (a)	\$ 62,000	\$ 61,000
Plan fiduciary net position		
Contributions - employer	\$ 3,000	\$ 3,000
Net investment income	1,000	1,000
Benefit payments	(5,000)	(5,000)
Other changes	(1,000)	-
Net change in plan fiduciary net position	\$ (2,000)	\$ (1,000)
Plan fiduciary net position - beginning	10,000	11,000
Plan fiduciary net position - ending (b)	\$ 8,000	\$ 10,000
City's net HIC OPEB liability - ending (a) - (b)	\$ 54,000	\$ 51,000
Plan fiduciary net position as a percentage of the total HIC OPEB liability	12.90%	16.39%
Covered payroll	\$ 367,065	\$ 392,295
City's net HIC OPEB liability as a percentage of covered payroll	14.71%	13.00%

Schedule is intended to show information for 10 years. Information prior to the 2018 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Employer Contributions
Health Insurance Credit (HIC) Program
For the Years Ended June 30, 2010 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2019	\$ 17,440	\$ 17,440	\$ -	\$ 3,487,954	0.50%
2018	17,319	17,319	-	3,463,554	0.50%
2017	17,332	17,332	-	3,466,331	0.50%
2016	17,591	17,591	-	3,449,201	0.51%
2015	16,908	16,908	-	3,315,206	0.51%
2014	16,045	16,045	-	3,208,907	0.50%
2013	17,729	17,729	-	3,545,707	0.50%
2012	17,332	17,332	-	3,466,407	0.50%
2011	17,312	17,312	-	3,462,358	0.50%
2010	24,888	24,888	-	3,606,928	0.69%
Component Unit School Board (nonprofessional)					
2019	\$ 5,000	\$ 5,000	\$ -	\$ 404,575	1.24%
2018	3,000	3,000	-	367,065	0.82%
2017	3,000	3,000	-	392,295	0.76%
2016	2,642	2,642	-	366,880	0.72%
2015	3,429	3,429	-	476,240	0.72%
2014	4,197	4,197	-	511,831	0.82%
2013	4,025	4,025	-	490,889	0.82%
2012	4,098	4,098	-	512,257	0.80%
2011	3,990	3,990	-	498,789	0.80%
2010	5,947	5,947	-	521,675	1.14%

Current year contributions are from City records and prior year contributions are from the VRS actuarial valuation performed each year.

City of Covington, Virginia
Notes to Required Supplementary Information
Health Insurance Credit (HIC) Program
For the Year Ended June 30, 2019

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

City of Covington, Virginia
Schedule of School Board's Share of Net OPEB Liability
Component Unit - School Board (Professional)
Teacher Employee Health Insurance Credit (HIC) Program
For the Measurement Dates of June 30, 2016 through June 30, 2018

Date (1)	Employer's Proportion of the Net HIC OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6)
2018	0.67510%	858,000	5,459,639	15.72%	8.08%
2017	0.07134% \$	905,000 \$	5,629,860	16.08%	7.04%
2016	0.06816%	865,000	5,197,408	16.64%	7.04%

Schedule is intended to show information for 10 years. Information prior to the 2016 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
Schedule of Employer Contributions
Component Unit - School Board (Professional)
Teacher Employee Health Insurance Credit (HIC) Program
For the Years Ended June 30, 2010 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2019	\$ 66,000	\$ 66,000	\$ -	\$ 5,469,846	1.21%
2018	74,000	74,000	-	5,459,639	1.36%
2017	62,000	62,000	-	5,629,860	1.10%
2016	55,093	55,093	-	5,197,408	1.06%
2015	51,921	51,921	-	4,898,194	1.06%
2014	56,878	56,878	-	5,124,136	1.11%
2013	55,698	55,698	-	2,017,848	2.76%
2012	32,169	32,169	-	5,361,576	0.60%
2011	31,272	31,272	-	5,211,997	0.60%
2010	41,089	41,089	-	5,246,021	0.78%

Current year contributions are from City records and prior year contributions are from the VRS actuarial valuation performed each year.

City of Covington, Virginia
Notes to Required Supplementary Information
Component Unit - School Board (Professional)
Teacher Employee Health Insurance Credit (HIC) Program
For the Year Ended June 30, 2019

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Other Supplementary Information

City of Covington, Virginia
City Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2019

	<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				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
Total revenues	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Capital projects	\$ -	\$ 1,369,959	\$ 435,619	\$ 934,340
Total expenditures	\$ -	\$ 1,369,959	\$ 435,619	\$ 934,340
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (1,369,959)	\$ (435,619)	\$ 934,340
Net change in fund balances	\$ -	\$ (1,369,959)	\$ (435,619)	\$ 934,340
Fund balances - beginning	-	1,369,959	1,369,959	-
Fund balances - ending	\$ -	\$ -	\$ 934,340	\$ 934,340

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, 2019

	<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	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Debt service:				
Interest and other fiscal charges	\$ -	\$ -	\$ -	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ -	\$ -
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ (898)	\$ (898)
Net change in fund balances	\$ -	\$ -	\$ (898)	\$ (898)
Fund balances - beginning	-	-	898	898
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

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, 2019

	<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	\$ -	\$ -	\$ 30	\$ 30
Total revenues	\$ -	\$ -	\$ 30	\$ 30
EXPENDITURES				
Capital projects	\$ -	\$ -	\$ 30	\$ (30)
Total expenditures	\$ -	\$ -	\$ 30	\$ (30)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD**

MAJOR GOVERNMENTAL FUNDS

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

City of Covington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2019

	School Operating Fund	School Cafeteria Fund	Total School Fund
ASSETS			
Cash and cash equivalents	\$ 573,976	\$ -	\$ 573,976
Due from other governmental units	213,190	4,226	217,416
Inventories	-	8,644	8,644
Prepaid items	44,629	-	44,629
Total assets	<u>\$ 831,795</u>	<u>\$ 12,870</u>	<u>\$ 844,665</u>
LIABILITIES			
Accounts payable	\$ 242,122	\$ -	\$ 242,122
Accrued liabilities	233,191	-	233,191
Due to primary government	326,706	-	326,706
Total liabilities	<u>\$ 802,019</u>	<u>\$ -</u>	<u>\$ 802,019</u>
FUND BALANCES			
Nonspendable:			
Prepaid items	\$ 44,629	\$ -	\$ 44,629
Inventory	-	8,644	8,644
Restricted:			
Cafeteria	-	4,226	4,226
Assigned:			
Textbook Funds	29,776	-	29,776
Unassigned	(44,629)	-	(44,629)
Total fund balances	<u>\$ 29,776</u>	<u>\$ 12,870</u>	<u>\$ 42,646</u>
Total liabilities and fund balances	<u>\$ 831,795</u>	<u>\$ 12,870</u>	<u>\$ 844,665</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:			
Total fund balances per above			\$ 42,646
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Land		\$ 89,663	
Buildings and improvements		1,539,682	
Machinery, equipment, and vehicles		<u>298,557</u>	1,927,902
Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.			
Pension related items		\$ 1,466,262	
OPEB related items		<u>211,481</u>	1,677,743
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.			
Capital lease		\$ (107,552)	
Compensated absences		(357,238)	
Accrued interest payable		(2,247)	
Net pension liability		(8,497,884)	
Net OPEB liabilities		<u>(1,781,441)</u>	(10,746,362)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.			
Pension related items		\$ (1,468,358)	
OPEB related items		<u>(139,939)</u>	(1,608,297)
Net position of governmental activities			<u>\$ (8,706,368)</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, 2019

	School Operating Fund	School Cafeteria Fund	Total School Fund
REVENUES			
Revenue from the use of money and property	\$ 1,362	\$ -	\$ 1,362
Charges for services	-	39,978	39,978
Miscellaneous	102,696	-	102,696
Recovered costs	22,743	-	22,743
Intergovernmental:			
Local government	3,136,750	-	3,136,750
Commonwealth	7,085,132	8,351	7,093,483
Federal	668,017	353,100	1,021,117
Total revenues	<u>\$ 11,016,700</u>	<u>\$ 401,429</u>	<u>\$ 11,418,129</u>
EXPENDITURES			
Current:			
Education	\$ 10,872,746	\$ 513,003	\$ 11,385,749
Debt service:			
Principal retirement	24,965	-	24,965
Interest and other fiscal charges	3,963	-	3,963
Total expenditures	<u>\$ 10,901,674</u>	<u>\$ 513,003</u>	<u>\$ 11,414,677</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 115,026</u>	<u>\$ (111,574)</u>	<u>\$ 3,452</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ -	\$ 96,995	\$ 96,995
Transfers out	(96,995)	-	(96,995)
Total other financing sources (uses)	<u>\$ (96,995)</u>	<u>\$ 96,995</u>	<u>\$ -</u>
Net change in fund balances	\$ 18,031	\$ (14,579)	\$ 3,452
Fund balances - beginning	11,745	27,449	39,194
Fund balances - ending	<u>\$ 29,776</u>	<u>\$ 12,870</u>	<u>\$ 42,646</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			\$ 3,452
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded the capital outlays in the current period.			
Capital asset additions		\$ 60,664	
Depreciation expense		<u>(168,523)</u>	(107,859)
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 assets. Also, governmental funds report the effect of issuance costs, 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.			
Principal payments on capital lease		<u>\$ 24,965</u>	24,965
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		\$ 31,902	
Pension expense		481,307	
OPEB expense		40,847	
(Increase) decrease in accrued interest payable		<u>(2,247)</u>	551,809
Change in net position of governmental activities			<u>\$ 472,367</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, 2019

	School Operating Fund				School Cafeteria Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Revenue from the use of money and property	\$ 500	\$ 500	\$ 1,362	\$ 862	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	25,000	25,000	39,978	14,978
Miscellaneous	45,352	92,352	102,696	10,344	-	-	-	-
Recovered costs	38,375	38,375	22,743	(15,632)	-	-	-	-
Intergovernmental:								
Local government	3,234,136	3,280,047	3,136,750	(143,297)	-	-	-	-
Commonwealth	6,774,419	7,049,511	7,085,132	35,621	14,871	14,871	8,351	(6,520)
Federal	609,555	677,055	668,017	(9,038)	320,000	320,000	353,100	33,100
Total revenues	\$ 10,702,337	\$ 11,137,840	\$ 11,016,700	\$ (121,140)	\$ 359,871	\$ 359,871	\$ 401,429	\$ 41,558
EXPENDITURES								
Current:								
Education	\$ 10,578,194	\$ 10,984,769	\$ 10,872,746	\$ 112,023	\$ 484,014	\$ 484,014	\$ 513,003	\$ (28,989)
Debt service:								
Principal retirement	-	24,965	24,965	-	-	-	-	-
Interest and other fiscal charges	-	3,963	3,963	-	-	-	-	-
Total expenditures	\$ 10,578,194	\$ 11,013,697	\$ 10,901,674	\$ 112,023	\$ 484,014	\$ 484,014	\$ 513,003	\$ (28,989)
Excess (deficiency) of revenues over (under) expenditures	\$ 124,143	\$ 124,143	\$ 115,026	\$ (9,117)	\$ (124,143)	\$ (124,143)	\$ (111,574)	\$ 12,569
OTHER FINANCING SOURCES (USES)								
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 124,143	\$ 124,143	\$ 96,995	\$ (27,148)
Transfers out	(124,143)	(124,143)	(96,995)	27,148	-	-	-	-
Total other financing sources (uses)	\$ (124,143)	\$ (124,143)	\$ (96,995)	\$ 27,148	124,143	124,143	96,995	(27,148)
Net change in fund balances	\$ -	\$ -	\$ 18,031	\$ 18,031	\$ -	\$ -	\$ (14,579)	\$ (14,579)
Fund balances - beginning	-	-	11,745	11,745	-	-	27,449	27,449
Fund balances - ending	\$ -	\$ -	\$ 29,776	\$ 29,776	\$ -	\$ -	\$ 12,870	\$ 12,870

Supporting Schedules

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

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	\$ 2,294,365	\$ 2,294,365	\$ 2,247,800	\$ (46,565)
Real and personal public service corporation taxes	2,028,336	2,028,336	2,011,429	(16,907)
Personal property taxes	1,067,045	1,067,045	1,116,444	49,399
Mobile home taxes	7,413	7,413	6,016	(1,397)
Machinery and tools taxes	3,150,000	3,150,000	3,311,769	161,769
Penalties	40,000	40,000	54,153	14,153
Interest and fees	45,000	45,000	48,465	3,465
Total general property taxes	\$ 8,632,159	\$ 8,632,159	\$ 8,796,076	\$ 163,917
Other local taxes:				
Local sales and use taxes	\$ 1,250,000	\$ 1,250,000	\$ 1,436,858	\$ 186,858
Consumers' utility taxes	400,000	400,000	400,909	909
Consumption taxes	24,000	24,000	24,573	573
Business license taxes	530,000	530,000	551,434	21,434
Motor vehicle licenses	165,000	165,000	180,494	15,494
Bank stock taxes	200,000	200,000	252,732	52,732
Recordation tax	10,804	10,804	37,636	26,832
Hotel and motel room taxes	14,000	14,000	29,514	15,514
Restaurant food taxes	1,040,000	1,040,000	1,085,409	45,409
Tobacco taxes	110,000	110,000	94,495	(15,505)
Total other local taxes	\$ 3,743,804	\$ 3,743,804	\$ 4,094,054	\$ 350,250
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 400	\$ 400	\$ 504	\$ 104
Land use fees	150	150	50	(100)
Zoning and subdivision permits	700	700	650	(50)
Building permits	6,050	6,050	15,477	9,427
Other permits and licenses	400	400	1,325	925
Total permits, privilege fees, and regulatory licenses	\$ 7,700	\$ 7,700	\$ 18,006	\$ 10,306
Fines and forfeitures:				
Court fines and forfeitures	\$ 4,500	\$ 4,500	\$ 3,324	\$ (1,176)
Revenue from use of money and property:				
Revenue from use of money	\$ 34,700	\$ 34,700	\$ 83,665	\$ 48,965
Revenue from use of property	14,750	14,750	27,757	13,007
Total revenue from use of money and property	\$ 49,450	\$ 49,450	\$ 111,422	\$ 61,972
Charges for services:				
Charges for fire and rescue services	\$ 387,000	\$ 387,000	\$ 390,956	\$ 3,956
Charges for sanitation and waste removal	-	-	736	736
Charges for parks and recreation	41,000	41,000	44,447	3,447
Charges for cemetery	37,000	37,000	54,944	17,944
Charges for other services	325	325	1,375	1,050
Total charges for services	\$ 465,325	\$ 465,325	\$ 492,458	\$ 27,133
Miscellaneous:				
Miscellaneous	\$ 22,750	\$ 77,470	\$ 53,955	\$ (23,515)
Recovered costs:				
CSA recoveries	\$ 3,000	\$ 3,000	\$ 20,018	\$ 17,018
Other recovered costs	20,000	20,000	7,902	(12,098)
Total recovered costs	\$ 23,000	\$ 23,000	\$ 27,920	\$ 4,920
Total revenue from local sources	\$ 12,948,688	\$ 13,003,408	\$ 13,597,215	\$ 593,807

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

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)				
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 15,000	\$ 15,000	\$ 16,412	\$ 1,412
Mobile home titling tax	1,000	1,000	4,563	3,563
Motor vehicle rental tax	-	-	18,101	18,101
State recordation tax	-	-	8,964	8,964
Telecommunications taxes	280,000	280,000	263,389	(16,611)
Personal property tax relief funds	546,655	546,655	546,655	-
Total noncategorical aid	\$ 842,655	\$ 842,655	\$ 858,084	\$ 15,429
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 75,093	\$ 75,093	\$ 77,409	\$ 2,316
Treasurer	69,667	69,667	69,659	(8)
Registrar/electoral board	35,000	35,000	35,715	715
Total shared expenses	\$ 179,760	\$ 179,760	\$ 182,783	\$ 3,023
Other categorical aid:				
Welfare payments	\$ 112,715	\$ 112,715	\$ 19,109	\$ (93,606)
CSA payments	1,129,492	1,557,505	1,312,366	(245,139)
Litter control grant	5,800	5,895	5,895	-
VDOT Transportation Grant	331,000	471,723	330,971	(140,752)
Fire program	20,000	20,000	20,633	633
Asset forfeiture	2,000	2,000	5,984	3,984
Law enforcement block grant	275,229	275,229	275,228	(1)
State highway payments	1,069,240	1,069,240	1,101,742	32,502
E-911 grant program	37,000	37,000	41,121	4,121
OEMS grant	61,264	111,461	59,175	(52,286)
VA commission for the arts	4,500	4,500	4,500	-
Other State funds	1,600	160,953	3,807	(157,146)
Total other categorical aid	\$ 3,049,840	\$ 3,828,221	\$ 3,180,531	\$ (647,690)
Total categorical aid	\$ 3,229,600	\$ 4,007,981	\$ 3,363,314	\$ (644,667)
Total revenue from the Commonwealth	\$ 4,072,255	\$ 4,850,636	\$ 4,221,398	\$ (629,238)
Revenue from the federal government:				
Categorical aid:				
DMV occupant protection grant	\$ -	\$ 10,100	\$ 2,557	\$ (7,543)
Transportation enhancement grant	-	230,583	-	(230,583)
Appalachian regional commission - drone grant	-	100,000	39,937	(60,063)
Byrne criminal justice grant	1,500	1,860	740	(1,120)
Public assistance and welfare administration	-	-	14,464	14,464
Total categorical aid	\$ 1,500	\$ 342,543	\$ 57,698	\$ (284,845)
Total revenue from the federal government	\$ 1,500	\$ 342,543	\$ 57,698	\$ (284,845)
Total General Fund	\$ 17,022,443	\$ 18,196,587	\$ 17,876,311	\$ (320,276)
School Construction Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 30	\$ 30
Total School Construction Fund	\$ -	\$ -	\$ 30	\$ 30
Total Primary Government	\$ 17,022,443	\$ 18,196,587	\$ 17,876,341	\$ (320,246)

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

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>
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 property	\$ 500	\$ 500	\$ 1,362	\$ 862
Total revenue from use of money and property	\$ 500	\$ 500	\$ 1,362	\$ 862
Miscellaneous:				
Miscellaneous	\$ 45,352	\$ 92,352	\$ 102,696	\$ 10,344
Recovered costs:				
Payments from other localities	\$ 38,375	\$ 38,375	\$ 22,743	\$ (15,632)
Total revenue from local sources	\$ 84,227	\$ 131,227	\$ 126,801	\$ (4,426)
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Covington, Virginia	\$ 3,234,136	\$ 3,280,047	\$ 3,136,750	\$ (143,297)
Revenue from the Commonwealth:				
Categorical aid:				
Algebra readiness	\$ 14,233	\$ 14,233	\$ 14,233	\$ -
VA preschool initiative	184,863	150,967	150,967	-
At risk payments	141,448	159,995	159,595	(400)
Basic school aid	3,291,515	3,359,424	3,351,426	(7,998)
Dropout prevention	3,744	3,744	3,744	-
Early reading intervention	39,885	39,885	39,885	-
Education technology payment	128,000	128,000	144,811	16,811
English as a second language	1,417	2,361	2,361	-
Fringe benefits	488,357	497,365	496,379	(986)
Gifted and talented	33,189	33,802	33,734	(68)
ISAP program	7,859	8,355	8,355	-
Lottery funds	184,266	251,201	250,702	(499)
Mentor teacher program	827	825	825	-
Primary class size	183,794	193,387	193,387	-
Remedial education	152,400	155,211	154,903	(308)
School security grant	-	20,644	20,644	-
Remedial summer education	23,405	41,409	41,409	-
Share of state sales tax	950,024	957,297	959,245	1,948
Social security fringe benefits	214,715	218,675	218,241	(434)
Special education	577,765	588,423	587,255	(1,168)
Special education - foster children	-	-	9,574	9,574
Special education - homebound	4,085	4,085	1,849	(2,236)
Special education - regional tuition	-	63,171	77,357	14,186
Textbook payment	68,201	68,201	69,321	1,120
VA workplace readiness	-	-	157	157
Vocational education	77,893	79,330	79,173	(157)
Regular foster care	-	9,160	7,847	(1,313)
Vocational education - equipment	2,534	361	4,841	4,480
Other categorical aid	-	-	2,912	2,912
Total categorical aid	\$ 6,774,419	\$ 7,049,511	\$ 7,085,132	\$ 35,621
Total revenue from the Commonwealth	\$ 6,774,419	\$ 7,049,511	\$ 7,085,132	\$ 35,621
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 215,000	\$ 265,000	\$ 293,885	\$ 28,885

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

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>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Revenue from the federal government: (Continued)				
Categorical aid: (Continued)				
Title VI, rural and low income schools	\$ 18,000	\$ 18,000	\$ 25,707	\$ 7,707
Title VI-B, special education flow-through	226,482	226,482	226,105	(377)
Vocational education	17,800	17,800	15,833	(1,967)
Title VI-B, special education pre-school	10,273	10,273	10,365	92
Gear-up VA project	70,000	87,500	64,972	(22,528)
Title II, Part A	52,000	52,000	31,150	(20,850)
Total categorical aid	<u>\$ 609,555</u>	<u>\$ 677,055</u>	<u>\$ 668,017</u>	<u>\$ (9,038)</u>
Total revenue from the federal government	<u>\$ 609,555</u>	<u>\$ 677,055</u>	<u>\$ 668,017</u>	<u>\$ (9,038)</u>
Total School Operating Fund	<u>\$ 10,702,337</u>	<u>\$ 11,137,840</u>	<u>\$ 11,016,700</u>	<u>\$ (121,140)</u>
School Cafeteria Fund:				
Revenue from local sources:				
Charges for services:				
Cafeteria sales	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 39,978</u>	<u>\$ 14,978</u>
Total revenue from local sources	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 39,978</u>	<u>\$ 14,978</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food program grant	<u>\$ 14,871</u>	<u>\$ 14,871</u>	<u>\$ 8,351</u>	<u>\$ (6,520)</u>
Total revenue from the Commonwealth	<u>\$ 14,871</u>	<u>\$ 14,871</u>	<u>\$ 8,351</u>	<u>\$ (6,520)</u>
Revenue from the federal government:				
Categorical aid:				
School food program grant	<u>\$ 320,000</u>	<u>\$ 320,000</u>	<u>\$ 353,100</u>	<u>\$ 33,100</u>
Total revenue from the federal government	<u>\$ 320,000</u>	<u>\$ 320,000</u>	<u>\$ 353,100</u>	<u>\$ 33,100</u>
Total School Cafeteria Fund	<u>\$ 359,871</u>	<u>\$ 359,871</u>	<u>\$ 401,429</u>	<u>\$ 41,558</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 11,062,208</u>	<u>\$ 11,497,711</u>	<u>\$ 11,418,129</u>	<u>\$ (79,582)</u>

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

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	\$ 46,118	\$ 46,250	\$ 46,249	\$ 1
City clerk	15,685	15,685	15,514	171
Total legislative	<u>\$ 61,803</u>	<u>\$ 61,935</u>	<u>\$ 61,763</u>	<u>\$ 172</u>
General and financial administration:				
City manager	\$ 288,185	\$ 335,059	\$ 331,802	\$ 3,257
Human resources	17,500	5,044	1,204	3,840
Information technology	102,800	102,416	100,428	1,988
Legal services	69,235	94,867	94,837	30
Commissioner of revenue	251,957	249,462	244,202	5,260
Independent auditors	64,000	75,284	75,284	-
Treasurer	285,396	310,569	309,855	714
Central accounting	503,878	623,801	599,180	24,621
Board of Assessors	74,600	74,195	71,241	2,954
Total general and financial administration	<u>\$ 1,657,551</u>	<u>\$ 1,870,697</u>	<u>\$ 1,828,033</u>	<u>\$ 42,664</u>
Board of elections:				
Electoral board and officials	<u>\$ 84,804</u>	<u>\$ 85,562</u>	<u>\$ 85,476</u>	<u>\$ 86</u>
Total general government administration	<u>\$ 1,804,158</u>	<u>\$ 2,018,194</u>	<u>\$ 1,975,272</u>	<u>\$ 42,922</u>
Judicial administration:				
Courts:				
Circuit court	\$ 12,859	\$ 12,860	\$ 12,860	\$ -
General district court	6,492	6,492	6,492	-
Magistrates office	1,500	1,968	1,968	-
Clerk of the circuit court	41,691	42,416	42,416	-
Sheriff (court)	86,213	86,183	86,148	35
Total courts	<u>\$ 148,755</u>	<u>\$ 149,919</u>	<u>\$ 149,884</u>	<u>\$ 35</u>
Commonwealth's attorney:				
Commonwealth's attorney	<u>\$ 60,535</u>	<u>\$ 60,536</u>	<u>\$ 60,536</u>	<u>\$ -</u>
Total judicial administration	<u>\$ 209,290</u>	<u>\$ 210,455</u>	<u>\$ 210,420</u>	<u>\$ 35</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,757,066	\$ 1,865,527	\$ 1,837,505	\$ 28,022
Sheriff	243,869	243,869	243,869	-
E-911 wireless grant	535,036	604,115	559,172	44,943
School resource officer	47,904	51,122	51,121	1
Seizure/forfeiture funds	2,500	2,500	-	2,500
Total law enforcement and traffic control	<u>\$ 2,586,375</u>	<u>\$ 2,767,133</u>	<u>\$ 2,691,667</u>	<u>\$ 75,466</u>
Fire and rescue services:				
Volunteer fire department	\$ 266,451	\$ 296,803	\$ 219,283	\$ 77,520
Ambulance service	503,274	597,286	569,954	27,332
Total fire and rescue services	<u>\$ 769,725</u>	<u>\$ 894,089</u>	<u>\$ 789,237</u>	<u>\$ 104,852</u>
Correction and detention:				
Sheriff (jail)	\$ 348,160	\$ 348,160	\$ 348,160	\$ -
Probation office	2,904	3,539	3,539	-
Total correction and detention	<u>\$ 351,064</u>	<u>\$ 351,699</u>	<u>\$ 351,699</u>	<u>\$ -</u>
Inspections:				
Building	<u>\$ 148,800</u>	<u>\$ 198,801</u>	<u>\$ 197,932</u>	<u>\$ 869</u>

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

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	\$ 134,827	\$ 106,991	\$ 100,811	\$ 6,180
Medical examiner	100	100	60	40
Total other protection	<u>\$ 134,927</u>	<u>\$ 107,091</u>	<u>\$ 100,871</u>	<u>\$ 6,220</u>
Total public safety	<u>\$ 3,990,891</u>	<u>\$ 4,318,813</u>	<u>\$ 4,131,406</u>	<u>\$ 187,407</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 75,000	\$ 70,150	\$ 53,891	\$ 16,259
Street department	1,415,804	2,014,706	1,640,851	373,855
Snow and ice removal	28,205	32,500	30,547	1,953
Traffic engineering	115,444	129,870	120,921	8,949
Street cleaning	15,000	15,000	12,093	2,907
Street lights	160,000	166,462	166,462	-
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 1,809,453</u>	<u>\$ 2,428,688</u>	<u>\$ 2,024,765</u>	<u>\$ 403,923</u>
Sanitation and waste removal:				
Litter control grant	<u>\$ 5,800</u>	<u>\$ 5,895</u>	<u>\$ 5,895</u>	<u>\$ -</u>
Maintenance of general buildings and grounds:				
General properties	\$ 297,235	\$ 336,446	\$ 336,173	\$ 273
Motor vehicular maintenance	239,282	253,632	252,538	1,094
Total maintenance of general buildings and grounds	<u>\$ 536,517</u>	<u>\$ 590,078</u>	<u>\$ 588,711</u>	<u>\$ 1,367</u>
Total public works	<u>\$ 2,351,770</u>	<u>\$ 3,024,661</u>	<u>\$ 2,619,371</u>	<u>\$ 405,290</u>
Health and welfare:				
Health:				
Supplement of local health department	<u>\$ 97,790</u>	<u>\$ 97,790</u>	<u>\$ 97,234</u>	<u>\$ 556</u>
Mental health and mental retardation:				
Alleghany Highlands community services board	<u>\$ 54,940</u>	<u>\$ 54,940</u>	<u>\$ 54,940</u>	<u>\$ -</u>
General Fund: (Continued)				
Health and welfare: (continued)				
Welfare:				
Radar transportation Service	\$ 15,000	\$ 15,000	\$ 12,056	\$ 2,944
Feeding America	1,500	1,500	1,500	-
Safehomes, Inc.	2,000	2,000	2,000	-
Jackson river enterprise	12,000	12,000	12,000	-
Alleghany Highlands CSA foster care	1,503,872	2,053,789	1,759,067	294,722
Social Services	129,810	150,272	150,271	1
Other Contributions	6,500	6,500	500	6,000
Property tax relief for the elderly	-	-	26,811	(26,811)
Total welfare	<u>\$ 1,670,682</u>	<u>\$ 2,241,061</u>	<u>\$ 1,964,205</u>	<u>\$ 276,856</u>
Total health and welfare	<u>\$ 1,823,412</u>	<u>\$ 2,393,791</u>	<u>\$ 2,116,379</u>	<u>\$ 277,412</u>
Education:				
Other instructional costs:				
Contributions to Community College	\$ 3,314	\$ 3,314	\$ 3,314	\$ -
Contribution to City School Board	3,234,136	3,280,047	3,136,750	143,297
Total education	<u>\$ 3,237,450</u>	<u>\$ 3,283,361</u>	<u>\$ 3,140,064</u>	<u>\$ 143,297</u>

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

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	\$ 1,159,260	\$ 1,558,858	\$ 1,251,905	\$ 306,953
Cultural enrichment:				
Senior center	\$ 215,965	\$ 186,511	\$ 183,123	\$ 3,388
Cemetery	257,629	259,972	259,122	850
League of older Americans	2,659	2,659	2,659	-
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	-
Foundation Grants	0	45,000	21,825	23,175
Total cultural enrichment	\$ 489,353	\$ 507,242	\$ 479,829	\$ 27,413
Library:				
Contribution to regional library	\$ 142,590	\$ 142,590	\$ 142,590	\$ -
Total parks, recreation, and cultural	\$ 1,791,203	\$ 2,208,690	\$ 1,874,324	\$ 334,366
Community development:				
Planning and community development:				
Planning commission	\$ 29,493	\$ 29,491	\$ 22,328	\$ 7,163
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	800	800	327	473
Economic development	103,881	356,256	182,321	173,935
CDBG program	-	70,000	-	70,000
Total planning and community development	\$ 154,174	\$ 476,547	\$ 224,976	\$ 251,571
Environmental management:				
Contribution to soil and water district	\$ 2,500	\$ 2,500	\$ 2,500	\$ -
Cooperative extension program:				
Extension office	\$ 5,443	\$ 5,443	\$ 5,305	\$ 138
Total community development	\$ 162,117	\$ 484,490	\$ 232,781	\$ 251,709
Nondepartmental:				
Contingencies	\$ 43,715	\$ 26,121	\$ 14,683	\$ 11,438
Debt service:				
Principal retirement	\$ 1,252,500	\$ 1,322,492	\$ 1,322,490	\$ 2
Interest and other fiscal charges	735,214	740,267	740,265	2
Total debt service	\$ 1,987,714	\$ 2,062,759	\$ 2,062,755	\$ 4
Total General Fund	\$ 17,401,720	\$ 20,031,335	\$ 18,377,455	\$ 1,653,880
Capital Projects Fund:				
Capital projects	\$ -	\$ 1,369,959	\$ 435,619	\$ 934,340
Total capital projects	\$ -	\$ 1,369,959	\$ 435,619	\$ 934,340
Total City Capital Projects Fund	\$ -	\$ 1,369,959	\$ 435,619	\$ 934,340
School Construction Fund:				
Capital Outlay:				
School construction	\$ -	\$ -	\$ 30	\$ (30)
Total School Construction Fund	\$ -	\$ -	\$ 30	\$ (30)
Total Primary Government	\$ 17,401,720	\$ 21,401,294	\$ 18,813,104	\$ 2,588,190

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2019

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	\$ 922,628	\$ 1,057,169	\$ 1,051,401	\$ 5,768
Instruction costs:				
Instruction costs	\$ 7,911,112	\$ 7,979,183	\$ 7,937,262	\$ 41,921
School food services:				
Administration of school food program	\$ -	\$ 46	\$ 45	\$ 1
Operating costs:				
Pupil transportation	\$ 300,397	\$ 226,122	\$ 221,078	\$ 5,044
Operation and maintenance of school plant	1,033,089	1,091,683	1,062,117	29,566
Facilities	128,500	317,312	297,311	20,001
Technology	282,468	313,254	303,532	9,722
Total operating costs	\$ 1,744,454	\$ 1,948,371	\$ 1,884,038	\$ 64,333
Total education	\$ 10,578,194	\$ 10,984,769	\$ 10,872,746	\$ 112,023
Debt service:				
Principal retirement	\$ -	\$ 24,965	\$ 24,965	\$ -
Interest and other fiscal charges	-	3,963	3,963	-
Total debt service	\$ -	\$ 28,928	\$ 28,928	\$ -
Total School Operating Fund	\$ 10,578,194	\$ 11,013,697	\$ 10,901,674	\$ 112,023
School Cafeteria Fund:				
Education:				
School food services:				
Administration of school food program	\$ 484,014	\$ 484,014	\$ 513,003	\$ (28,989)
Total School Cafeteria Fund	\$ 484,014	\$ 484,014	\$ 513,003	\$ (28,989)
Total Discretely Presented Component Unit - School Board	\$ 11,062,208	\$ 11,497,711	\$ 11,414,677	\$ 83,034

Other Statistical Section

Table 1

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
2018-19	\$ 1,796,717	\$ 210,420	\$ 4,190,785	\$ 2,616,848	\$ 1,986,049	\$ 3,739,401	\$ 1,929,019	\$ 152,906	\$ 787,415	\$ 1,515,469	\$ 1,767,744	\$ 20,692,773
2017-18	1,596,965	193,309	3,824,213	5,315,732	1,928,602	3,574,098	1,868,116	252,110	1,018,605	1,512,416	1,635,976	22,720,142
2016-17	1,844,066	175,314	3,498,357	3,030,315	1,869,565	4,402,502	1,817,301	139,329	872,594	1,263,423	1,606,706	20,519,472
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

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
2018-19	\$ 6,476,138	\$ 3,339,954	\$ 278,646	\$ 8,837,051	\$ 4,094,054	\$ 122,172	\$ 87,514	\$ 858,084	\$ -	\$ 24,093,613
2017-18	5,687,638	3,812,846	523,817	8,635,037	3,847,681	96,348	105,896	856,277	-	23,565,540
2016-17	5,601,467	2,750,744	43,472	8,389,499	3,789,785	92,931	190,770	893,492	-	21,752,160
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

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
2018-19	\$ 1,975,272	\$ 210,420	\$ 4,131,406	\$ 2,619,371	\$ 2,116,379	\$ 11,389,063	\$ 1,874,324	\$ 232,781	\$ 435,649	\$ 14,683	\$ 2,091,683	\$ 27,091,031
2017-18	1,713,498	193,309	3,814,167	4,920,549	1,937,894	11,182,920	1,736,080	252,110	4,331,586	5,840	1,990,332	32,078,285
2016-17	1,897,928	175,314	3,355,693	2,939,220	1,910,817	11,445,748	1,689,096	139,329	381,951	144,930	1,870,305	25,950,331
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	122,901	2,955,446	2,696,909	1,724,165	9,833,368	1,484,555	99,201	869,412	-	1,801,162	22,921,533

(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. For Fiscal Year 2017-18, excludes bond issuance cost of \$45,000

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
2018-19	\$ 8,796,076	\$ 4,094,054	\$ 18,006	\$ 3,324	\$ 112,814	\$ 532,436	\$ 156,651	\$ 50,663	\$ 12,393,696	\$ 26,157,720
2017-18	8,726,512	3,847,681	38,143	7,061	89,207	1,597,226	204,094	74,589	12,858,781	27,443,294
2016-17	8,326,893	3,789,785	7,849	4,709	88,565	1,456,599	273,550	102,615	11,322,775	25,373,340
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

(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
2018-19	\$ 9,223,782	\$ 9,047,685	98.09%	\$ 192,428	9,240,113	100.18%	\$ 681,446	7.39%
2017-18	8,995,492	8,864,919	98.55%	241,157	9,106,076	101.23%	633,196	7.04%
2016-17	8,762,926	8,597,806	98.12%	178,911	8,776,717	100.16%	706,988	8.07%
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%

(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 (3)	Machinery and Tools (4)	Public Utility (2)		Total
				Real Estate	Personal Property	
2018-19	\$ 286,739,177	\$ 54,043,442	\$ 124,530,900	\$ 251,428,671	\$ -	\$ 716,742,190
2017-18	286,469,600	28,968,320	57,467,260	280,844,236	12,505	653,761,921
2016-17	286,698,566	29,259,446	54,576,920	281,858,971	12,555	652,406,458
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

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

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

(3) Prior to fiscal year 2019, personal property taxes were assessed at 55% NADA. The current year is assessed at 100%. Also, business personal property were assessed at 10% original costs prior to fiscal year 2019, The current year is assessed at 20%.

(4) Prior to fiscal year 2019, machinery and tools taxes were assessed at 15%. The current year is assessed at 30%.

Table 7

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

Fiscal Year	Real Estate	Mobile Homes	Personal Property (2)	Machinery and Tools (2)
2018-19 (3)	\$ 0.80	\$ 0.80	\$ 3.08	\$ 2.76
2017-18	0.76	0.76	5.60	5.52
2016-17	0.75	0.75	5.60	5.52
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

(1) Per \$100 of assessed value.

(2) See Table 6 for change in assessment methods.

(3) Rates shown for mobile homes, personal property and machinery and tools are for 1st half 2019. 2nd half 2018 are same as rates shown for 2017-18.

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
2018-19	5,961	\$ 716,742	\$ 25,591,444	3.57%	\$ 4,293
2017-18	5,961	653,762	26,834,679	4.10%	4,502
2016-17	5,961	652,406	25,434,047	3.90%	4,267
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

(1) Bureau of the Census.

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

(3) Includes all long-term general obligation bonded debt, bond anticipation notes, and literary fund loans. Excludes revenue bonds, 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
2018-19	\$ 1,322,490	\$ 740,265	\$ 2,062,755	\$ 27,091,031	7.61%
2017-18	1,207,659	782,673	1,990,332	32,078,285	6.20%
2016-17	1,093,100	777,205	1,870,305	25,950,331	7.21%
2015-16	979,534	1,067,484	2,047,018	25,582,812	8.00%
2014-15	740,265	1,187,259	1,927,524	23,755,209	8.11%
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%

(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, 2019

Legal Debt Limit:		
10% of Assessed Value of Taxable Real Estate	\$286,739,117	\$ 28,673,918
Deduct:		
Debt Payable		25,591,444
Legal Margin for Creation of Additional Debt		\$ <u>3,082,474</u>

COMPLIANCE SECTION

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 discretely presented component unit, and each major fund of the City of Covington, Virginia, as of and for the year ended June 30, 2019, 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 17, 2019.

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 have not been 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 significant deficiencies [2019-001].

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.



Blacksburg, Virginia
November 17, 2019

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, Virginia
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, 2019. City of Covington, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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, 2019.


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 a 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.



Blacksburg, Virginia
November 17, 2019

City of Covington, Virginia
Schedule of Expenditures of Federal Awards (SEFA)
For the Year Ended June 30, 2019

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	\$	34,351	
Department of Education:					
National School Lunch Program	10.555	40254		234,132	\$ 268,483
Department of Agriculture:					
Food Distribution-Schools (Note 3)	10.559	Not available	\$	262	
Department of Education:					
Summer Food Service Program for Children	10.559	60302&60303		9,141	\$ 9,403
Department of Education:					
School Breakfast Program	10.553	40253		75,214	\$ 353,100
Total Department of Agriculture					\$ 353,100
DEPARTMENT OF EDUCATION:					
Pass Through Payments:					
Department of Education:					
Title I - Grants to Local Educational Agencies	84.010	42901			\$ 293,885
Special Education Cluster:					
Special Education - Grants to States	84.027	43071	\$	226,105	
Special Education - Preschool Grants	84.173	62521		10,365	
Total Special Education Cluster:					236,470
Career and Technical Education - Basic Grants to States	84.048	61095			15,833
Supporting Effective Instruction State Grant	84.367	61480			31,150
Rural Education	84.358	43481			25,707
Gaining Early Awareness and Readiness of Undergraduate Programs	84.334	Not available			64,972
Total Department of Education					\$ 668,017
APPALACHIAN REGIONAL COMMISSION:					
Direct Payments:					
Appalachian Area Development	23.002	N/A			\$ 39,937
DEPARTMENT OF JUSTICE:					
Pass Through Payments:					
Department of Criminal Justice Services:					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	CJS7101608			\$ 740
DEPARTMENT OF TRANSPORTATION:					
Pass Through Payments:					
Virginia Department of Transportation:					
Highway Safety Cluster:					
State and Community Highway Safety	20.600	FOP-2019-59414-9414			\$ 2,557
DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
Pass Through Payments:					
Department of Social Services:					
Promoting Safe and Stable Families	93.556	0950118			\$ 105
TANF Cluster:					
Temporary Assistance for Needy Families	93.558	0400118,0400119			1,298
CCDF Cluster:					
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760118, 0760119			(75)
Foster Care - Title IV-E	93.658	1100119			721
Social Services Block Grant	93.667	1000118, 1000119			12,415
Total Department of Health and Human Services					\$ 14,464
Total Expenditures of Federal Awards					\$ 1,078,815

City of Covington, Virginia
Schedule of Expenditures of Federal Awards (SEFA)
For the Year Ended June 30, 2019

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 award activity of the City of Covington, Virginia under programs of the federal government for the year ended June 30, 2019. 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.
- (3) The City did not elect the 10% de minimis indirect cost rate because they only request direct costs for reimbursement.

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, 2019, the Covington City School Board held food commodities totaling \$8,644 in inventory.

NOTE 4--SUBRECIPIENTS:

The City did not have any subrecipients for the year ended June 30, 2019.

NOTE 5--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	\$ 57,698
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Component Unit School Board:

School Operating Fund	\$ 668,017
School Cafeteria Fund	353,100
Total Component Unit School Board	<u>\$ 1,021,117</u>

Total Federal Expenditures per Basic Financial Statements	<u><u>\$ 1,078,815</u></u>
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City of Covington, Virginia
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

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
84.010	Title I Grants to Local Educational Agencies

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

2019-001

Criteria:	A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.
Condition:	The City lacks proper segregation of duties over the following functions: Collections in the Treasurer's office.
Effect of Condition:	There is a reasonable possibility that misstatements 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 Treasurer's office.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019

Section II - Financial Statement Findings (Continued)

2019-001 (Continued)

Recommendation: Management should further try to segregate duties amongst current staff to help alleviate risk created by improper segregation of duties.

Management's Response: The City acknowledges that the Treasurer's office lacks proper segregation of duties, however, to alleviate same would require additional staff. The City is implementing a new financial software package which should alleviate some of the segregation issues.

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Audit Findings and Questioned Costs

Finding 2018-001 was recurring in fiscal year 2019 as 2019-001. Finding 2018-002 was resolved in fiscal year 2019