

CITY OF COVINGTON, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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CITY OF COVINGTON, VIRGINIA  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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## INTRODUCTORY SECTION

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## CITY OF COVINGTON, VIRGINIA

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### CITY COUNCIL

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David S. Crosier, Vice-Mayor	Thomas H. Sibold, Jr., Mayor	S. Allan Tucker
Raymond C. Hunter		William B. Zimmerman, Jr.

### CITY SCHOOL BOARD

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Nicole Rickett, Vice-Chair	Cynthia Bennett, Chair	Bert Baker
Eddy Clemons		Robert "Dizzy" Garten

### OTHER OFFICIALS

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

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## FINANCIAL SECTION

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Covington, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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



## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund of the City of Covington, Virginia, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 5-15, 85, and 86-91 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Virginia, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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 9, 2017, on our consideration of the City of Covington, Virginia, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Covington, Virginia's internal control over financial reporting and compliance.

*Proline, Fawcett, Cox Associates*

Blacksburg, Virginia  
November 9, 2017

## CITY OF COVINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS

### FISCAL YEAR 2017 (JULY 1, 2016 – JUNE 30, 2017)

As management of the City of Covington, we offer readers of the City of Covington's financial statements this narrative overview and analysis of the financial activities of the City of Covington for the fiscal year ended June 30, 2017.

#### 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 \$(3,187,787) "total net position". The unrestricted net position as the end of fiscal year 2017 is \$(5,889,764). These negative balances are driven primarily by unfunded liabilities including landfill closure/post closure costs, compensated absences costs, OPEB obligations and net pension liability totaling \$10,958,523. However, unrestricted net position is improved \$1,148,051 from the previous fiscal year.
- The City of Covington's total net position (Governmental Activities & Business Type Activities) increased \$1,232,688 from End of Year FY 2016 to End of Year FY 2017.
- At the close of the current fiscal year, the City of Covington's governmental funds reported an unassigned general fund balance of \$4,259,820 for an increase of \$347,848 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the City of Covington's governmental funds reported combined general fund balances of \$4,554,790 an increase of \$128,869 in comparison with the prior fiscal year.
- At the end of the current fiscal year, the general fund unassigned fund balance was 24.4% of revenues and it increased for 4<sup>th</sup> consecutive fiscal year going back to the unassigned fund balance of \$1,968,151 on June 30, 2013.

#### Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on Exhibits 1 and 2 of this report.

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

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

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

The basic governmental fund financial statements can be found on Exhibits 3-6 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 and Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer funds, both of which are considered to be major funds of the City of Covington.

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

**Notes to the Financial Statements:** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic governmental financial statements.

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

### **Government-wide Overall Financial Analysis**

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City of Covington, assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$10,514,751 at the close of the most recent fiscal year.

## City of Covington's Net Position

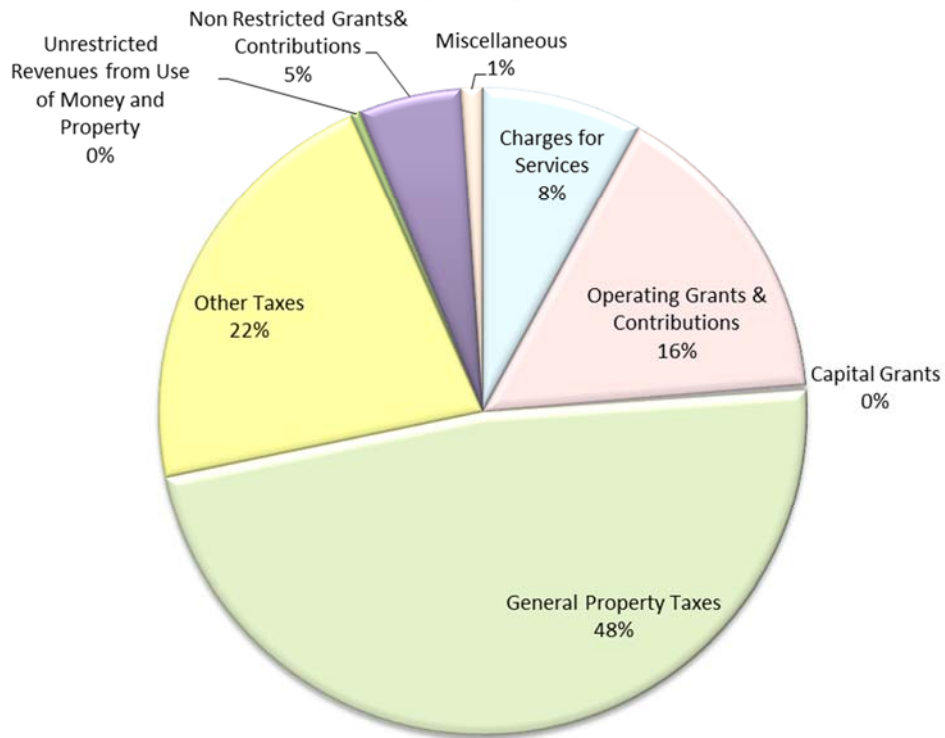
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Assets:</b>						
Current and other assets	\$ 8,666,213	\$ 7,251,374	\$ 6,160,259	\$ 5,990,289	\$ 14,928,793	\$ 13,241,663
Capital assets	\$ 27,308,330	\$ 27,927,482	\$ 24,151,131	\$ 23,871,789	\$ 51,459,461	\$ 51,799,271
<b>Total Assets</b>	<b>\$ 35,974,543</b>	<b>\$ 35,178,856</b>	<b>\$ 30,311,390</b>	<b>\$ 29,862,078</b>	<b>\$ 66,285,933</b>	<b>\$ 65,040,934</b>
<b>Deferred Outflows</b>						
<b>of Resources</b>	<b>\$ 1,900,042</b>	<b>\$ 1,682,142</b>	<b>\$ 170,359</b>	<b>\$ 106,380</b>	<b>\$ 2,070,401</b>	<b>\$ 1,788,522</b>
<b>Liabilities:</b>						
Current liabilities	\$ 2,782,323	\$ 1,829,446	\$ 1,339,098	\$ 758,854	\$ 4,121,421	\$ 2,588,300
Long-term liabilities	\$ 35,978,660	\$ 36,019,859	\$ 15,385,206	\$ 16,020,159	\$ 51,363,866	\$ 52,040,018
<b>Total Liabilities</b>	<b>\$ 38,760,983</b>	<b>\$ 37,849,305</b>	<b>\$ 16,724,304</b>	<b>\$ 17,058,787</b>	<b>\$ 55,485,287</b>	<b>\$ 54,908,092</b>
<b>Deferred Inflows</b>						
<b>of Resources</b>	<b>\$ 2,301,389</b>	<b>\$ 2,523,362</b>	<b>\$ 54,907</b>	<b>\$ 115,938</b>	<b>\$ 2,356,296</b>	<b>\$ 2,639,300</b>
<b>Net Position:</b>						
Net investment						
in capital assets	\$ 2,407,007	\$ 2,320,580	\$ 9,293,179	\$ 8,713,076	\$ 11,700,186	\$ 11,033,656
Restricted	\$ 294,970	\$ 513,949	\$ 797,745	\$ 648,967	\$ 1,092,715	\$ 1,162,916
Unrestricted	\$ (5,889,764)	\$ (6,346,198)	\$ 3,611,614	\$ 3,431,690	\$ (2,278,150)	\$ (2,914,508)
<b>Total Net Position</b>	<b>\$ (3,187,787)</b>	<b>\$ (3,511,669)</b>	<b>\$ 13,702,538</b>	<b>\$ 12,793,733</b>	<b>\$ 10,514,751</b>	<b>\$ 9,282,064</b>

The City of Covington's net position reflects its investment in capital assets of \$11,700,186 (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.

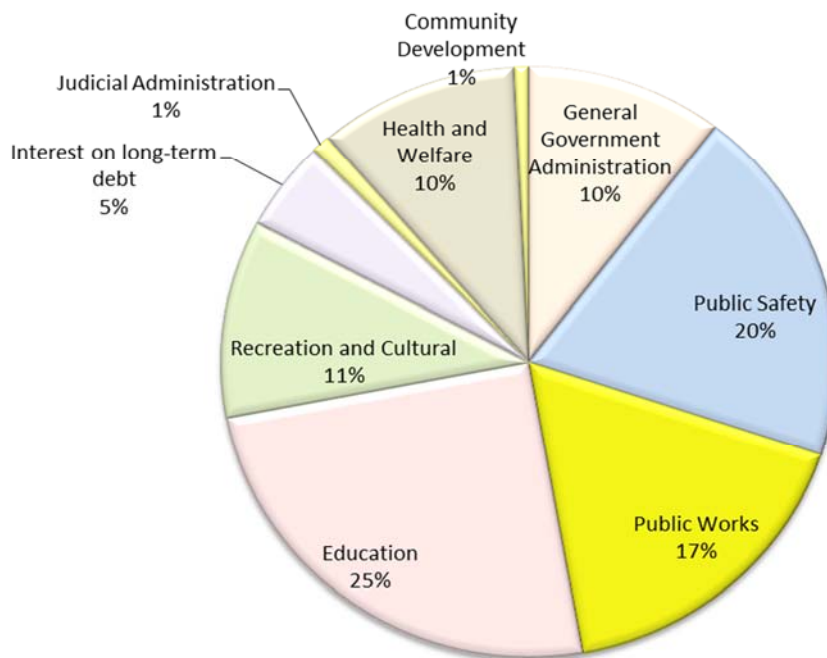
An additional portion of the City of Covington's net position represents resources that are subject to external restrictions on how they may be used. These restrictions total \$294,970 and are comprised of \$71,453 of unspent grants, \$220,669 of unspent capital lease proceeds, and \$2,848 of miscellaneous funds in the Governmental Activities and \$797,745 restricted for debt service and bond covenant in the Business-Type Activities.

The City of Covington's total net position increased \$1,232,688 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

## Sources of Revenue of Governmental Activities for Fiscal Year 2017



## Total Functional Expenses of Governmental Activities for Fiscal Year 2017



**Governmental Activities:** During the current fiscal year, Net Position for Governmental Activities increased \$323,882 from the prior fiscal year for an ending balance of \$(3,187,787). While the current economic conditions certainly had an impact on the City of Covington, and expenses in 6 of the 9 functional areas increased, they were offset by reductions in general government administration, interest on long term debt, and judicial administration as well as transfers from other funds for services and materials provided by city staff . The total expenses increase was also offset by total revenues which increased \$511,145 from FY 16 to FY 17.

**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 \$13,702,538. The total increase in net position for business-type activities (water and sanitation/sewer) was \$908,805 or 7.10% from the prior fiscal year. The increase is due primarily to normal business activity and \$428,033 in additional revenue in charges for services.



**Statement of Activities**  
**June 30, 2017 and 2016**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Total</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,400,643	\$ 1,275,382	\$ 4,200,824	\$ 3,772,791	\$ 5,601,467	\$ 5,048,173
Operating Grants & Contributions	2,750,744	2,525,991			2,750,744	2,525,991
Capital Grants & Contributions	43,472	2,573	-	6,517	43,472	9,090
General Revenues:						
General Property Taxes	8,389,499	8,137,262	-	-	8,389,499	8,137,262
Other Taxes	3,789,785	3,647,128	-	-	3,789,785	3,647,128
Unrestricted Revenues from Use of Money and Property	86,787	26,619	6,144	5,745	92,931	32,364
Grants and Contributions not Restricted to Specific Programs	893,492	884,099	-	-	893,492	884,099
Miscellaneous	186,663	530,886	4,107	12,462	190,770	543,348
Total Revenues	\$ <u>17,541,085</u>	\$ <u>17,029,940</u>	\$ <u>4,211,075</u>	\$ <u>3,797,515</u>	\$ <u>21,752,160</u>	\$ <u>20,827,455</u>
Expenses:						
General Government Administration	\$ 1,844,066	\$ 1,917,011	\$ -	\$ -	\$ 1,844,066	\$ 1,917,011
Public Safety	3,498,357	3,460,421	-	-	3,498,357	3,460,421
Public Works	3,030,315	2,934,344	-	-	3,030,315	2,934,344
Education	4,402,502	3,995,718	-	-	4,402,502	3,995,718
Culture and Recreation	1,817,301	1,324,136	-	-	1,817,301	1,324,136
Interest on long-term debt	872,594	1,074,337	-	-	872,594	1,074,337
Judicial Administration	175,314	199,965	-	-	175,314	199,965
Health and Welfare	1,869,565	1,342,892	-	-	1,869,565	1,342,892
Community Development	139,329	97,984	-	-	139,329	97,984
Water	-	-	1,263,423	1,054,462	1,263,423	1,054,462
Sanitation	-	-	1,606,706	1,473,877	1,606,706	1,473,877
Total Expenses	\$ <u>17,649,343</u>	\$ <u>16,346,808</u>	\$ <u>2,870,129</u>	\$ <u>2,528,339</u>	\$ <u>20,519,472</u>	\$ <u>18,875,147</u>
Increase (decrease) in net position	\$ (108,258)	\$ 683,132	\$ 1,340,946	\$ 1,269,176	\$ 1,232,688	\$ 1,952,308
Transfers	<u>432,140</u>	<u>402,825</u>	<u>(432,140)</u>	<u>(402,825)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	\$ 323,882	\$ 1,085,957	\$ 908,806	\$ 866,351	\$ 1,232,688	\$ 1,952,308
Net Position - beginning (restated)	<u>3,511,669</u>	<u>(4,597,626)</u>	<u>12,793,732</u>	<u>11,927,382</u>	<u>9,282,063</u>	<u>7,329,756</u>
Ending net position	\$ <u>(3,187,787)</u>	\$ <u>(3,511,669)</u>	\$ <u>13,702,538</u>	\$ <u>12,793,733</u>	\$ <u>10,514,751</u>	\$ <u>9,282,064</u>

## 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, 2017, the City of Covington's governmental funds reported combined fund balances of \$4,987,777, an increase of \$560,961. Of this amount, \$4,259,820 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either:

- 1) Restricted – Amounts constrained for specific purposes by their providers (such as grantees, bondholders, higher levels of government), constitutional provisions, or by enabling legislation. Of the City's total fund balance, \$727,060 is considered restricted.
- 2) Committed – Amounts constrained for specific purposes by the government itself, using its highest level of decision making authority. Of the City's total fund balance, \$897 is considered committed.

The General Fund is the chief operating fund of the City of Covington. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,259,820 while total fund balance was \$4,554,790. As a measure of the general fund's liquidity, it may be useful to compare both total fund balance and total unassigned fund balance to total general fund revenues. Total fund balance represents approximately 26.13%, while unassigned fund balance represents approximately 24.4% of that same amount.

The unassigned fund balance of the City of Covington's general fund increased \$347,848 from the end of FY16 to the end of FY17.

The portion of fund balance restricted for unspent capital leases of \$220,669 is for the ongoing software project.

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

Both the Water and Sewer Funds enjoyed an increase in total net position, with the Water Fund increasing \$743,151 and the Sewer Fund increasing \$165,655. Unrestricted net position of the Water Fund at the end of the fiscal year was \$2,262,748, an increase of \$72,348; and the Sewer Fund was \$1,348,866, an increase of \$107,576.

## General Fund Budgetary Highlights

Original budget compared to final budget. During the year the budgetary expenditures were amended by \$2,819,001 for the General Fund. With these additions, actual expenditures compared to the budget showed a positive variance of \$2,724,154. This was mainly due to non-completion of projects related to streetscape, paving, software, and landfill engineering services which have corresponding revenue streams. That will be continued into FY 17/18.

Negative budget variances were realized in general property taxes and permits & fees while positive variances were realized in other local taxes, fines & forfeitures, use of money & property, charges for services, miscellaneous, and recovered costs.

It would appear that the largest revenue shortfall of \$505,551 is in personal property taxes ; however, please note that this revenue is offset by state personal property tax relief funds in the amount of \$558,310. Charges for fire & rescue services \$(44,915) are the second largest negative variance to local revenues while real property taxes are \$(31,324).

Review of actual revenues and expenditures indicates that actual revenues for the General Fund were \$17,424,810 and expenditures for the General Fund were \$17,728,081. This variance is offset by transfers of \$432,140 resulting in a net change in total fund balance of \$128,169.

## 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, 2017, amounts to \$51,459,461 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, the water treatment plant, and the wastewater treatment plant. The city began necessary repairs and maintenance in both plants as evidenced by increased expenditures from available funds.

### City of Covington's Capital Assets

Summary of Capital Assets for Governmental Activities (net of depreciation)  
As of June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,955,871	\$ 1,955,871	\$ -	\$ -	\$ 1,955,871	\$ 1,955,871
Buildings and improvements	20,848,990	21,501,116	-	-	20,848,990	21,501,116
Improvements other than buildings	-	-	-	-	-	-
Machinery and equipment	2,597,559	2,861,156	-	-	2,597,559	2,861,156
Infrastructure	1,254,804	1,242,679	17,639,842	18,328,137	18,894,646	19,570,816
Construction in progress	651,106	366,660	6,511,289	5,543,652	7,162,395	5,910,312
Total	\$ 27,308,330	\$ 27,927,482	\$ 24,151,131	\$ 23,871,789	\$ 51,459,461	\$ 51,799,271

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

**Debt Administration:** The City of Covington's total debt decreased by \$452,031 during the current fiscal year. Also, it should be noted that the city acquired QZAB bond funding of \$750,000 at 0% interest that is committed to school improvements.

The Component Unit School Board has long-term "Other Obligations" transactions related to compensated absences, Net OPEB Obligation, and Net Pensions Liability in the amount of \$11,048,090 as of June 30, 2017. This obligation is an overall increase of \$1,455,175 compared to the previous fiscal year.

The Primary Government has long-term "Other Obligations" transactions related to compensated absences, Net OPEB Obligation, and Net Pensions Liability in the amount of \$5,573,487. In addition to these obligations, the city has \$5,385,036 in Landfill Closure/Post Closure Liability. Combined the total increase from the previous year is \$554,108. The landfill obligation will be addressed in economic factors, budgets, and rates.

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 \$28,670,290 with GO debt currently at \$25,434,047.

### City of Covington's Outstanding Debt

Summary of Outstanding Debt For the Year Ended June 30, 2017 and 2016						
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation refunding bonds	\$ 13,747,000	\$ 13,466,000	\$ -	\$ -	\$ 13,747,000	\$ 13,466,000
Deferred Amounts						
Bond Premiums	467,047	480,275	610,068	637,799	1,077,115	1,118,074
Bond Discounts	-	-	-	-	-	-
Literary Loans	11,220,000	11,645,000	-	-	11,220,000	11,645,000
Revenue Bonds	-	-	14,410,376	15,120,376	14,410,376	15,120,376
Capital leases	980,075	1,179,175	-	-	980,075	1,179,175
Landfill Closure/Post Closure Liability	5,385,036	5,315,930	-	-	5,385,036	5,315,930
Other Obligations (Insurance/Leave)	689,146	724,228	133,827	147,933	822,973	872,161
Net Pension Liability	4,884,341	4,364,257	1,001,931	899,905	5,886,272	5,264,162
Total	\$ <u>37,372,645</u>	\$ <u>37,174,865</u>	\$ <u>16,156,202</u>	\$ <u>16,806,013</u>	\$ <u>53,528,847</u>	\$ <u>53,980,878</u>

### 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 2017-2018 Fiscal Year Budget:

- The unemployment rate for the City of Covington increased to 5.7% on June 30, 2017, an increase from the prior year rate of 5.1% on June 30, 2016. With an increased emphasis on economic development, the city is hopeful the unemployment rate will decline.

- The City of Covington and Alleghany County have developed a regional revenue sharing agreement in an effort to enhance business attraction.
- There are no increases in Business-Type Activity Funds in Water and Wastewater
- Real Estate Taxes per \$100.00 of value were increased one cent from \$0.75 to \$0.76 which is one of the lowest rates in Virginia for a city that provides for full services and an independent school system.
- Solid waste disposal charges were increased \$5.00/month for FY 18 and there will be an increase in FY 19 as well. The purpose of the increase is to provide and fund an expansion of cells, purchase equipment, cover operations costs, and fund a closure/post closure liability **fund** which has not been in place prior. It is indicated that the cells will assure 14 years of available solid waste space for the city. Bath County is a participant with the city as well, and is responsible for their proportionate share of costs.
- Health Insurance Costs for the city were proposed to increase for the 2017-18 budget year by 20.1%. However, the city opted to increase employee deductibles to offset increased costs. VRS retirement contributions required by the state remained the same and will continue in the 2017-18 Budget as per the biennial state budget.
- No unassigned fund balance was taken from 2016-2017 dollars to balance the 2017-2018 Budget.
- Financial policies will be implemented during FY 18 with Fund Balance to be addressed first.
- Public Service Corp Real Estate taxes continue to offset Machinery and Tools tax losses created by “green” legislation. This positive revenue stream growth will be impacted due to depreciation in the next 10 to 15 years unless the value continues to increase.
- The city has embarked on a paving assessment plan that is included in the budget for the third straight year after no such prior dedicated efforts. Additionally, the city will be making \$1,002,458 in paving improvements during FY 18 funded by “State of Good Repair” monies which the city applied for, received without a required match.
- Capital Equipment purchases were strategically budgeted in public works and the plants where possible to minimize debt, and capital improvement planning will continue related to necessary purchases.
- The city continues to report in EMMA per its continuing disclosure responsibilities.

### **Requests for Information**

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

## Basic Financial Statements

City of Covington, Virginia  
Statement of Net Position  
June 30, 2017

	Primary Government			Component Unit
	Governmental	Business-type		School Board
	Activities	Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,921,436	\$ 4,554,730	\$ 8,476,166	\$ 1,288,195
Cash in custody of others	-	-	-	6,128
Investments	803,651	-	803,651	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,615,728	-	2,615,728	-
Other local taxes receivable	233,593	-	233,593	-
Accounts receivable	69,444	807,784	877,228	1,599
Due from component unit	326,706	-	326,706	-
Due from other governmental units	695,655	-	695,655	312,323
Inventories	-	-	-	11,740
Prepaid items	-	-	-	22,115
Restricted assets:				
Cash and cash equivalents	-	291,703	291,703	-
Investments	-	506,042	506,042	-
Capital assets not being depreciated:				
Land	1,955,871	-	1,955,871	89,663
Construction in progress	651,106	6,511,289	7,162,395	-
Capital assets, net of accumulated depreciation:				
Buildings and improvements	20,848,990	-	20,848,990	1,742,922
Improvements other than buildings	-	-	-	-
Machinery, equipment, and vehicles	2,597,559	-	2,597,559	204,891
Infrastructure	1,254,804	17,639,842	18,894,646	-
Total Assets	\$ 35,974,543	\$ 30,311,390	\$ 66,285,933	\$ 3,679,576
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding	\$ 1,080,709	\$ -	\$ 1,080,709	\$ -
Pension contributions subsequent to measurement date	427,500	90,885	518,385	881,747
Items related to measurement of net pension liability	391,833	79,474	471,307	858,066
Total deferred outflows of resources	\$ 1,900,042	\$ 170,359	\$ 2,070,401	\$ 1,739,813
<b>LIABILITIES</b>				
Accounts payable	\$ 1,000,338	\$ 372,599	\$ 1,372,937	\$ 540,894
Accrued liabilities	53,107	10,801	63,908	721,395
Retainage payable	-	30,718	30,718	-
Customers' deposits	-	98,576	98,576	-
Accrued interest payable	314,665	55,408	370,073	-
Due to primary government	-	-	-	326,706
Deposits held in escrow	20,228	-	20,228	-
Noncurrent liabilities:				
Due within one year	1,393,985	770,996	2,164,981	285,677
Due in more than one year	35,978,660	15,385,206	51,363,866	10,762,413
Total Liabilities	\$ 38,760,983	\$ 16,724,304	\$ 55,485,287	\$ 12,637,085
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred revenue - property taxes	\$ 2,049,250	\$ -	\$ 2,049,250	\$ -
Items related to measurement of net pension liability	252,139	54,907	307,046	729,726
Total deferred inflows of resources	\$ 2,301,389	\$ 54,907	\$ 2,356,296	\$ 729,726
<b>NET POSITION</b>				
Net investment in capital assets	\$ 2,407,007	\$ 9,293,179	\$ 11,700,186	\$ 2,037,476
Restricted:				
Capital lease projects	220,669	-	220,669	-
Asset forfeiture	741	-	741	-
Transportation enhancement grants	71,453	-	71,453	-
Debt Service	-	797,745	797,745	-
Donations	2,107	-	2,107	-
Unrestricted	(5,889,764)	3,611,614	(2,278,150)	(9,984,898)
Total Net Position	\$ (3,187,787)	\$ 13,702,538	\$ 10,514,751	\$ (7,947,422)

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, 2017

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating		Capital Grants and Contributions	Primary Government		Total	Component Unit
			Grants and Contributions	Grants and Contributions		Governmental Activities	Business-type Activities		
<b>PRIMARY GOVERNMENT:</b>									
Governmental activities:									
General government administration	\$ 1,844,066	\$ 273	\$ 178,194	\$ -	-	\$ (1,665,599)	\$ (1,665,599)		
Judicial administration	175,314	-	-	-	-	(175,314)	(175,314)		
Public safety	3,498,357	266,531	397,405	43,472	-	(2,790,949)	(2,790,949)		
Public works	3,030,315	1,036,666	1,044,466	-	-	(949,183)	(949,183)		
Health and welfare	1,869,565	-	1,125,679	-	-	(743,886)	(743,886)		
Education	4,402,502	-	-	-	-	(4,402,502)	(4,402,502)		
Parks, recreation, and cultural	1,817,301	96,061	5,000	-	-	(1,716,240)	(1,716,240)		
Community development	139,329	1,112	-	-	-	(138,217)	(138,217)		
Interest on long-term debt	872,594	-	-	-	-	(872,594)	(872,594)		
Total governmental activities	\$ 17,649,343	\$ 1,400,643	\$ 2,750,744	\$ 43,472		\$ (13,454,484)	\$ (13,454,484)		
<b>Business-type activities:</b>									
Water	\$ 1,263,423	\$ 2,318,953	\$ -	\$ -	-	\$ 1,055,530	\$ 1,055,530		
Sewer	1,606,706	1,881,871	-	-	-	275,165	275,165		
Total business-type activities	\$ 2,870,129	\$ 4,200,824	\$ -	\$ -	-	\$ 1,330,695	\$ 1,330,695		
Total primary government	\$ 20,519,472	\$ 5,601,467	\$ 2,750,744	\$ 43,472		\$ (13,454,484)	\$ (12,123,789)		
<b>COMPONENT UNIT:</b>									
School Board	\$ 11,837,966	\$ 68,514	\$ 7,635,067	\$ -	-	\$ -	\$ -	\$ (4,134,385)	
General revenues:									
General property taxes						\$ 8,389,499	\$ -	\$ 8,389,499	
Other local taxes:									
Local sales and use taxes						1,244,112	-	1,244,112	
Consumers' utility taxes						412,346	-	412,346	
Consumption taxes						22,075	-	22,075	
Business license taxes						521,918	-	521,918	
Franchise license taxes						21,778	-	21,778	
Motor vehicle licenses						139,780	-	139,780	
Bank stock taxes						197,966	-	197,966	
Recordation taxes						23,126	-	23,126	
Hotel and motel room taxes						18,636	-	18,636	
Restaurant food taxes						1,063,404	-	1,063,404	
Tobacco taxes						124,644	-	124,644	
Unrestricted revenues from use of money and property						6,144	-	6,144	
Miscellaneous						86,787	1,778	92,931	1,778
Payments from the City of Covington						186,663	119,683	190,770	119,683
Grants and contributions not restricted to specific programs						-	4,017,237	-	4,017,237
Transfers						893,492	-	893,492	-
Total general revenues and transfers						432,140	(432,140)	-	-
Total general revenues						\$ 13,778,366	\$ (421,889)	\$ 13,356,477	\$ 4,138,698
Change in net position						\$ 323,882	\$ 908,806	\$ 1,232,688	\$ 4,313
Net position - beginning						(3,511,669)	12,793,732	9,282,063	(7,951,735)
Net position - ending						\$ (3,187,787)	\$ 13,702,538	\$ 10,514,751	\$ (7,947,422)

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



City of Covington, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2017

	<u>General</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,022,860	\$ 897	\$ -	\$ 4,023,757
Cash in custody of others				-
Investments	64,609	-	739,042	803,651
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,615,728	-	-	2,615,728
Other local taxes receivables	233,593	-	-	233,593
Accounts receivable	69,444	-	-	69,444
Due from component unit	326,706	-	-	326,706
Intergovernmental receivable	695,655	-	-	695,655
Total assets	<u>\$ 8,028,595</u>	<u>\$ 897</u>	<u>\$ 739,042</u>	<u>\$ 8,768,534</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 795,707	\$ -	\$ 204,631	\$ 1,000,338
Accrued liabilities	53,107	-	-	53,107
Reconciled overdraft	-	-	102,321	102,321
Deposits held in escrow	20,228	-	-	20,228
Total liabilities	<u>\$ 869,042</u>	<u>\$ -</u>	<u>\$ 306,952</u>	<u>\$ 1,175,994</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	\$ 2,604,763	\$ -	\$ -	\$ 2,604,763
	<u>\$ 2,604,763</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,604,763</u>
<b>FUND BALANCES</b>				
Restricted:				
Donations	\$ 2,107	\$ -	\$ -	\$ 2,107
Asset forfeiture	741	-	-	741
School construction	-	-	432,090	432,090
Transportation enhancement grants	71,453	-	-	71,453
Capital lease projects	220,669	-	-	220,669
Committed:				
Debt service funds	-	897	-	897
Unassigned	4,259,820	-	-	4,259,820
Total fund balances	<u>\$ 4,554,790</u>	<u>\$ 897</u>	<u>\$ 432,090</u>	<u>\$ 4,987,777</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,028,595</u>	<u>\$ 897</u>	<u>\$ 739,042</u>	<u>\$ 8,768,534</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, 2017

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds		\$ 4,987,777
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 1,955,871		
Buildings and improvements	20,848,990		
Machinery, equipment, and vehicles	2,597,559		
Infrastructure	1,254,804		
Construction in progress	651,106		27,308,330

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	\$ 555,513		
Deferred inflows - items related to measurement of net pension liability	(252,139)		303,374

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

427,500

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

General obligation bonds	\$ (13,747,000)		
Less: Deferred charges on refunding	1,080,709		
Literary Loans	(11,220,000)		
Capital lease	(980,075)		
Unamortized premium	(467,047)		
Compensated absences	(268,515)		
Landfill accrued closure/post-closure costs	(5,385,036)		
Accrued interest payable	(314,665)		
Net OPEB obligation	(420,631)		
Net pension liability	(4,884,341)		
Deferred outflows - items related to measurement of net pension liability	391,833		(36,214,768)

Net position of governmental activities		\$ (3,187,787)
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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, 2017

	<u>General</u>	School Debt Service <u>Reserve</u>	School <u>Construction</u>	<u>Total</u>
<b>REVENUES</b>				
General property taxes	\$ 8,326,893	\$ -	\$ -	\$ 8,326,893
Other local taxes	3,789,785	-	-	3,789,785
Permits, privilege fees, and regulatory licenses	7,849	-	-	7,849
Fines and forfeitures	4,709	-	-	4,709
Revenue from the use of money and property	82,744	2	4,041	86,787
Charges for services	1,388,085	-	-	1,388,085
Miscellaneous	78,867	-	75,000	153,867
Recovered costs	58,170	-	-	58,170
Intergovernmental:				
Commonwealth	3,657,172	-	-	3,657,172
Federal	30,536	-	-	30,536
Total revenues	<u>\$ 17,424,810</u>	<u>\$ 2</u>	<u>\$ 79,041</u>	<u>\$ 17,503,853</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,897,928	\$ -	\$ -	\$ 1,897,928
Judicial administration	175,314	-	-	175,314
Public safety	3,355,693	-	-	3,355,693
Public works	2,939,220	-	-	2,939,220
Health and welfare	1,910,817	-	-	1,910,817
Education	3,605,449	-	-	3,605,449
Parks, recreation, and cultural	1,689,096	-	-	1,689,096
Community development	139,329	-	-	139,329
Nondepartmental	144,930	-	-	144,930
Capital projects	-	-	381,951	381,951
Debt service:				
Principal retirement	1,093,100	-	-	1,093,100
Interest and other fiscal charges	777,205	-	-	777,205
Bond issuance costs	-	-	15,000	15,000
Total expenditures	<u>\$ 17,728,081</u>	<u>\$ -</u>	<u>\$ 396,951</u>	<u>\$ 18,125,032</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (303,271)</u>	<u>\$ 2</u>	<u>\$ (317,910)</u>	<u>\$ (621,179)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 432,140	\$ -	\$ -	\$ 432,140
Issuance of general obligation bonds	-	-	750,000	750,000
Total other financing sources (uses)	<u>\$ 432,140</u>	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ 1,182,140</u>
Net change in fund balances	\$ 128,869	\$ 2	\$ 432,090	\$ 560,961
Fund balances - beginning	<u>4,425,921</u>	<u>895</u>	<u>-</u>	<u>4,426,816</u>
Fund balances - ending	<u>\$ 4,554,790</u>	<u>\$ 897</u>	<u>\$ 432,090</u>	<u>\$ 4,987,777</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, 2017

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

Net change in fund balances - total governmental funds	\$	560,961
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded the capital outlays in the current period.

Capital asset additions	\$ 662,915	
Depreciation expense	(1,282,067)	(619,152)

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	\$ 62,606	
Change in deferred inflows related to the measurement of the net pension liability	310,125	372,731

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

Issuance of general obligation bonds	\$ (750,000)	
(Increase) decrease in landfill closure and post-closure monitoring costs	(69,106)	
Principal Payments:		
General obligation bonds	469,000	
Literary Loans	425,000	
Capital lease	199,100	273,994

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	\$ 63,277	
(Increase) decrease in net OPEB obligation	(28,195)	
Amortization of bond premiums	13,228	
Amortization of deferred amount on refundings	(82,839)	
(Increase) decrease in accrued interest payable	(10,778)	
Change in net pension liability	(520,084)	
Change in deferred outflows related to pension payments subsequent to the measurement date	(91,094)	
Change in deferred outflows related to the measurement of the net pension liability	391,833	(264,652)

Change in net position of governmental activities	\$	<u>323,882</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, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,950,917	\$ 1,603,813	\$ 4,554,730
Accounts receivable, net of allowance for uncollectibles	496,677	311,107	807,784
Restricted current assets:			
Cash and cash equivalents	-	291,703	291,703
Investments	506,042	-	506,042
Total current assets	\$ 3,953,636	\$ 2,206,623	\$ 6,160,259
Noncurrent assets:			
Capital assets:			
Utility plant in service	\$ 8,334,978	\$ 21,657,333	\$ 29,992,311
Accumulated depreciation	(5,737,180)	(6,615,289)	(12,352,469)
Construction in progress	6,511,289	-	6,511,289
Total capital assets	\$ 9,109,087	\$ 15,042,044	\$ 24,151,131
Total assets	\$ 13,062,723	\$ 17,248,667	\$ 30,311,390
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension contributions subsequent to the measurement date	\$ 50,232	\$ 40,653	\$ 90,885
Items related to measurement of net pension liability	40,943	38,531	79,474
Total deferred outflows of resources	\$ 91,175	\$ 79,184	\$ 170,359
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 343,627	\$ 28,972	\$ 372,599
Wages payable	6,236	4,565	10,801
Customers' deposits	55,544	43,032	98,576
Accrued interest payable	55,408	-	55,408
Retainage payable	30,718	-	30,718
Compensated absences - current portion	19,266	14,000	33,266
Bonds payable - current portion	162,730	575,000	737,730
Total current liabilities	\$ 673,529	\$ 665,569	\$ 1,339,098
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 5,452,338	\$ 8,830,376	\$ 14,282,714
Net OPEB obligation	49,054	40,419	89,473
Compensated absences	6,421	4,667	11,088
Net pension liability	517,456	484,475	1,001,931
Total noncurrent liabilities	\$ 6,025,269	\$ 9,359,937	\$ 15,385,206
Total liabilities	\$ 6,698,798	\$ 10,025,506	\$ 16,724,304
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Items related to measurement of net pension liability	\$ 29,799	\$ 25,108	\$ 54,907
Total deferred inflows of resources	\$ 29,799	\$ 25,108	\$ 54,907
<b>NET POSITION</b>			
Net investment in capital assets	\$ 3,656,511	\$ 5,636,668	\$ 9,293,179
Restricted for debt service and bond covenants	506,042	291,703	797,745
Unrestricted	2,262,748	1,348,866	3,611,614
Total net position	\$ 6,425,301	\$ 7,277,237	\$ 13,702,538

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, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>OPERATING REVENUES</b>			
Charges for services:			
Water revenues	\$ 2,297,090	\$ -	\$ 2,297,090
Sewer revenues	-	1,863,692	1,863,692
Penalties	21,863	18,179	40,042
Miscellaneous	-	4,107	4,107
Total operating revenues	<u>\$ 2,318,953</u>	<u>\$ 1,885,978</u>	<u>\$ 4,204,931</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	\$ 414,991	\$ 327,439	\$ 742,430
Fringes	196,204	165,928	362,132
Contracted services	175,270	188,660	363,930
Other charges	302,783	365,400	668,183
Purchase of equipment	-	4,664	4,664
Lease/rent of equipment	382	161	543
OPEB expense	3,149	2,556	5,705
Depreciation	170,644	551,898	722,542
Total operating expenses	<u>\$ 1,263,423</u>	<u>\$ 1,606,706</u>	<u>\$ 2,870,129</u>
Operating income (loss)	<u>\$ 1,055,530</u>	<u>\$ 279,272</u>	<u>\$ 1,334,802</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	\$ 5,416	\$ 728	\$ 6,144
Income (loss) before contributions and transfers	<u>\$ 1,060,946</u>	<u>\$ 280,000</u>	<u>\$ 1,340,946</u>
Capital contributions and construction grants	\$ -	\$ -	\$ -
Transfers in	-	126,665	126,665
Transfers out	(317,795)	(241,010)	(558,805)
Change in net position	<u>\$ 743,151</u>	<u>\$ 165,655</u>	<u>\$ 908,806</u>
Net position - beginning	5,682,150	7,111,582	12,793,732
Net position - ending	<u>\$ 6,425,301</u>	<u>\$ 7,277,237</u>	<u>\$ 13,702,538</u>

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

City of Covington, Virginia  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 2,284,127	\$ 1,843,765	\$ 4,127,892
Payments to suppliers	(447,640)	(521,463)	(969,103)
Payments to employees	(647,341)	(524,265)	(1,171,606)
Net cash provided by (used for) operating activities	\$ 1,189,146	\$ 798,037	\$ 1,987,183
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	\$ (317,795)	\$ (241,010)	\$ (558,805)
Transfers from other funds	-	126,665	126,665
Net cash provided by (used for) noncapital financing activities	\$ (317,795)	\$ (114,345)	\$ (432,140)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of utility plant	\$ (515,175)	\$ (34,247)	\$ (549,422)
Principal payments on bonds	(135,000)	(575,000)	(710,000)
Interest payments	(222,994)	-	(222,994)
Net cash provided by (used for) capital and related financing activities	\$ (873,169)	\$ (609,247)	\$ (1,482,416)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	\$ 5,416	\$ 728	\$ 6,144
Net increase (decrease) in cash and cash equivalents	\$ 3,598	\$ 75,173	\$ 78,771
Cash and cash equivalents - beginning	3,453,361	1,820,343	5,273,704
Cash and cash equivalents - ending	\$ 3,456,959	\$ 1,895,516	\$ 5,352,475
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>			
Operating income (loss)	\$ 1,055,530	\$ 279,272	\$ 1,334,802
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	\$ 170,644	\$ 551,898	\$ 722,542
Net OPEB obligation	3,149	2,556	5,705
(Increase) decrease in accounts receivable	(47,973)	(51,676)	(99,649)
(Increase) decrease in prepaid expenses	-	8,450	8,450
(Increase) decrease in deferred outflows of resources	(36,234)	(27,745)	(63,979)
Increase (decrease) in customer deposits	13,147	9,463	22,610
Increase (decrease) in accounts payable	30,795	28,972	59,767
Increase (decrease) in wages payable	(12,346)	(11,902)	(24,248)
Increase (decrease) in compensated absences	(8,198)	(11,613)	(19,811)
Increase (decrease) in net pension liability	50,936	51,090	102,026
Increase (decrease) in deferred inflows of resources	(30,304)	(30,728)	(61,032)
Total adjustments	\$ 133,616	\$ 518,765	\$ 652,381
Net cash provided by (used for) operating activities	\$ 1,189,146	\$ 798,037	\$ 1,987,183

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

CITY OF COVINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

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Note 1 - Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity

The City of Covington, Virginia is a municipal corporation governed by an elected five-member City Council. The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

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

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

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

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

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

The City participates in the Charles Pinckney Jones Memorial Library. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City's contribution during fiscal year 2017 was \$121,271.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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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, 2017

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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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.

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, 2017

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

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

2. 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 \$103,177 at June 30, 2017 and is comprised solely of property taxes.

4. Property Taxes

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

5. Use of Estimates

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

6. Capital Assets

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

6. Capital Assets (Continued)

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

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

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

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. In accordance with the provisions of Government Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The City accrues salary-related payments associated with the payment of compensated absences.

8. Long-Term Obligations

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

8. Long-Term Obligations (Continued)

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

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

9. Fund Equity

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

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

Committed Fund Balance Policy:

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

Assigned Fund Balance Policy:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

9. Fund Equity (Continued)

Minimum Unassigned Fund Balance Policy:

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

Resource Flow Policy:

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

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditures/expense) until then. The City only has two items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. It is also comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

10. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup>, and amounts prepaid on the 2<sup>nd</sup> half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2<sup>nd</sup> half installments levied during the fiscal year but due after June 30<sup>th</sup> and amounts prepaid on the 2<sup>nd</sup> half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments and changes in proportion and differences between employer contributions and proportionate share of contributions. For more detailed information on these items, reference the pension note.

11. Pensions

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

12. Net Position

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



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

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

12. Net Position (Continued)

The City's net position is classified as follows:

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

13. Net Position Flow Assumption

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 2 - Stewardship, Compliance, and Accountability:

A. Budgetary Information

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

1. Prior to May 1, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: General Fund and the School Operating Fund.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the City Council can revise the appropriation by function. The City Manager is authorized to transfer budgeted amounts within general government activities or departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund. The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all City units. The City's practice is to appropriate Capital Projects by Project.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.
9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the City's accounting system.

B. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2017, there were no departments that had expenditures in excess of appropriations.

C. Deficit Fund Equity

At June 30, 2017, there were no funds with deficit fund equity.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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, 2017 and June 30, 2016, the City had 1,176 shares of MetLife Trust stock valued at a \$54.94 and \$39.83 per share for a total value of \$64,609 and \$46,840, respectively.

The City's rated debt investments as of June 30, 2017 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

City's Rated Debt Investment Values	
Rated Debt Investments	Fair Quality Ratings
	AAAm
State Non-arbitrage Pool (SNAP)	\$ 1,245,083
Metlife Stock	64,609

The City's interest rate risk as of June 30, 2017:

Interest Rate Risk		
Investment type	Fair Value	Less than 1 yr
State Non-arbitrage Pool (SNAP)	\$ 1,245,083	\$ 1,245,083
Metlife Stock	64,609	64,609

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 3 - Deposits and Investments: (Continued)

Investments (Continued)

External Investment Pools

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

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

Note 4 - Fair Value:

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

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

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

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

Note 4 - Fair Value: (Continued)

The City has the following recurring fair value measurements as of June 30, 2017:

Investment	6/30/2017	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	\$ 64,609	\$ 64,609	\$ -	\$ -

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	\$ 211,572	\$ -
State sales tax	-	173,645
Non-categorical aid	320,675	-
Categorical aid - shared expenses	12,047	-
Categorical aid - Comprehensive Services Act	139,793	-
Categorical aid - VPA	2,359	-
Categorical aid - other	7,392	-
<u>Federal Government:</u>		
Categorical aid - VPA	1,817	-
Categorical aid - other	-	138,678
Totals	<u>\$ 695,655</u>	<u>\$ 312,323</u>

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 6 - Interfund Transfers:

Interfund transfers for the year ended June 30, 2017, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 432,140	\$ -
Water Fund	-	317,795
Sewer Fund	126,665	241,010
Total	<u>\$ 558,805</u>	<u>\$ 558,805</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, 2017:

	<u>Balance July 1, 2016</u>	<u>Increases/ Issuances</u>	<u>Decreases/ Retirements</u>	<u>Balance June 30, 2017</u>
General obligation bonds	\$ 13,466,000	\$ 750,000	\$ (469,000)	\$ 13,747,000
Deferred amounts:				
Premium	480,275	-	(13,228)	467,047
Literary loans	11,645,000	-	(425,000)	11,220,000
Capital lease (note 7)	1,179,175	-	(199,100)	980,075
Landfill closure/ post-closure liability	5,315,930	69,106	-	5,385,036
Compensated absences	331,792	185,567	(248,844)	268,515
Net OPEB obligation	392,436	72,192	(43,997)	420,631
Net pension liability	4,364,257	1,680,806	(1,160,722)	4,884,341
Total	<u>\$ 37,174,865</u>	<u>\$ 2,757,671</u>	<u>\$ (2,559,891)</u>	<u>\$ 37,372,645</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 7 - Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness: (Continued)

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

Year Ending June 30,	General Obligation Bonds		Literary Loans	
	Principal	Interest	Principal	Interest
2018	\$ 541,000	\$ 501,944	\$ 435,000	\$ 224,400
2019	568,000	480,800	445,000	215,700
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
2023-2027	3,633,000	1,746,366	2,500,000	797,500
2028-2032	2,350,000	1,158,878	2,760,000	537,400
2033-2037	920,000	949,716	3,050,000	249,900
2038-2041	3,870,000	434,945	645,000	12,900
Totals	\$ <u>13,747,000</u>	\$ <u>6,576,188</u>	\$ <u>11,220,000</u>	\$ <u>2,630,800</u>

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 7 - Long-Term Obligations: (Continued)Primary Government - Governmental Activities Indebtedness: (Continued)

## Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:							
GO Refunding Bond	2.47%	9/29/2015	2028	\$159,000-\$210,000 a+	\$ 2,410,000	\$ 2,052,000	\$ 166,000
VPSA GO Refunding Bond	5.05%-4.30%	11/21/2013	2041	\$90,000-\$1,580,000 a+	11,630,000	10,945,000	325,000
QZAB GO Bond	0.00%	11/30/2016	2031	\$50,000	750,000	750,000	50,000
Total General Obligation Bonds						<u>\$ 13,747,000</u>	<u>\$ 541,000</u>
Literary Loans							
Literary Loan	2.00%	2/16/2016	2038	\$425,000-\$645,000 a+	\$ 11,645,000	<u>\$ 11,220,000</u>	<u>\$ 435,000</u>
Deferred Amount:							
Unamortized Premium					\$ 496,278	<u>\$ 467,047</u>	<u>\$ 13,868</u>
Capital Leases:							
Mini Excavator Truck	1.55%	4/30/2015	2018	\$17,331 a	\$ 50,611	\$ 17,132	\$ 17,132
Fire Truck	1.84%	4/30/2015	2022	\$77,524 a	506,992	368,707	71,065
Garbage Truck	1.84%	4/30/2015	2022	\$24,989 a	163,421	118,847	22,907
Financial Software	1.84%	4/30/2015	2022	\$99,955 a	653,685	475,389	91,627
Total Capital Leases						<u>\$ 980,075</u>	<u>\$ 202,731</u>
Other Obligations:							
Compensated Absences						\$ 268,515	\$ 201,386
Net OPEB Obligation						420,631	-
Landfill Closure/Post-closure liability						5,385,036	-
Net pension liability						4,884,341	-
Total Other Obligations						<u>\$ 10,958,523</u>	<u>\$ 201,386</u>
Total Long-Term Obligations						<u>\$ 37,372,645</u>	<u>\$ 1,393,985</u>

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

(a) - annual installment including principal and interest

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 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, 2017:

	Balance July 1, 2016	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2017
Revenue bonds	\$ 15,120,376	\$ -	\$ (710,000)	\$ 14,410,376
Deferred amount:				
Premium	637,799	-	(27,731)	610,068
Net OPEB obligation	83,768	14,608	(8,903)	89,473
Compensated absences	64,165	28,313	(48,124)	44,354
Net pension liability	899,905	343,992	(241,966)	1,001,931
Total	<u>\$ 16,806,013</u>	<u>\$ 386,913</u>	<u>\$ (1,036,724)</u>	<u>\$ 16,156,202</u>

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

Year Ending June 30,	Revenue Bonds			
	Water		Sewer	
	Principal	Interest	Principal	Interest
2018	\$ 135,000	\$ 18,374	\$ 575,000	\$ -
2019	145,000	211,999	575,000	-
2020	150,000	205,265	575,000	-
2021	160,000	197,796	575,000	-
2022	165,000	191,743	575,000	-
2023-2027	935,000	843,231	2,875,000	-
2028-2032	1,175,000	607,256	2,869,251	-
2033-2037	1,465,000	314,552	786,125	-
2038-2039	675,000	31,428	-	-
Totals	<u>\$ 5,005,000</u>	<u>\$ 2,621,644</u>	<u>\$ 9,405,376</u>	<u>\$ -</u>

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 7 - Long-Term Obligation: (Continued)Primary Government - Business-type Activities Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bonds:							
Revenue Bond	0.00%	12/1/2010	2031	\$250,000 a	\$ 5,000,000	\$ 3,744,251	\$ 250,000
Revenue Bond	0.00%	5/10/2012	2032	\$162,500-325,000 a	6,500,000	5,661,125	325,000
Revenue Bond	2.04-4.83%	4/4/2013	2039	\$125,000-345,000 a+	5,395,000	5,005,000	135,000
Total Revenue Bonds						\$ 14,410,376	\$ 710,000
Deferred Amount:							
Unamortized Premium					\$ 720,990	\$ 610,068	\$ 27,730
Other Obligations:							
Compensated Absences						\$ 44,354	\$ 33,266
Net OPEB Obligation						89,473	-
Net pension liability						1,001,931	-
Total Other Obligations						\$ 1,135,758	\$ 33,266
Total Long-Term Obligations						\$ 16,156,202	\$ 770,996

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

(a) - annual principal installments shown; no interest

Note 8 - Capital Lease:Primary Government:

The City has entered into a lease agreement as lessee for the financing of the acquisition of a mini excavator truck, fire truck, garbage truck, and financial software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date. As of June 30, 2017, the assets related to the capital leases and accumulated depreciation are as follows:

	Mini Excavator	Fire Truck	Garbage Truck	Financial Software(1)	Total
Cost	\$ 50,325	\$ 504,134	\$ 162,500	\$ 317,007	\$ 1,033,966
Accumulated Depreciation	(17,952)	(83,562)	(19,143)	-	(120,657)
Net Book Value	\$ 32,373	\$ 420,572	\$ 143,357	\$ 317,007	\$ 913,309

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

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 8 - Capital Lease: (Continued)

Primary Government: (Continued)

The future minimum lease obligation and the net present value of minimum lease payments as of June 30, 2017, were as follows:

Fiscal Year Ended	Capital Leases
2018	219,798
2019	202,468
2020	202,468
2021	202,468
2022	202,467
Total minimum lease payments	\$ 1,029,669
Less: amount representing interest	(49,594)
Present value of minimum lease payments	<u>\$ 980,075</u>

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

Discretely Presented Component Unit - School Board-Indebtedness:

The following is a summary of long-term obligation transactions of the School Board for the year ended June 30, 2017:

	Balance July 1, 2016	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2017
Compensated absences	\$ 363,963	\$ 289,911	\$ (272,972)	\$ 380,902
Net OPEB obligation	257,900	80,600	(62,900)	275,600
Net pension liability	8,981,052	2,977,076	(1,566,540)	10,391,588
	<u>\$ 9,602,915</u>	<u>\$ 3,347,587</u>	<u>\$ (1,902,412)</u>	<u>\$ 11,048,090</u>

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

Discretely Presented Component Unit - School Board-Indebtedness:

Details of long-term indebtedness:

	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:		
Compensated absences	\$ 380,902	\$ 285,677
Net OPEB obligation	275,600	-
Net pension liability	10,391,588	-
Total Long-term Obligations	<u>\$ 11,048,090</u>	<u>\$ 285,677</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 10 - Pension Plan:*Plan Description*

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

*Employees Covered by Benefit Terms*

As of the June 30, 2015 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	89	21
Inactive members:		
Vested inactive members	5	4
Non-vested inactive members	8	2
Inactive members active elsewhere in VRS	13	9
Total inactive members	26	15
Active members	99	22
Total covered employees	214	58

*Contributions*

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 10 - Pension Plan: (Continued)

*Contributions (Continued)*

The City's contractually required contribution rate for the year ended June 30, 2017 was 13.80% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$518,385 and \$624,974 for the years ended June 30, 2017 and June 30, 2016, respectively.

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2017 was 15.87% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$61,747 and \$58,731 for the years ended June 30, 2017 and June 30, 2016, respectively.

*Net Pension Liability*

The City's and Component Unit School Board's (nonprofessional) net pension liabilities were measured as of June 30, 2016. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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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, 2015, 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, 2016.

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: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 10 - Pension Plan: (Continued)

*Actuarial Assumptions - General Employees (Continued)*

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Largest 10 - Non-LEOS:
- Update mortality table
  - Decrease in rates of service retirement
  - Decrease in rates of disability retirement
  - Reduce rates of salary increase by 0.25% per year

- All Others (Non 10 Largest) - Non-LEOS:
- Update mortality table
  - Decrease in rates of service retirement
  - Decrease in rates of disability retirement
  - Reduce rates of salary increase by 0.25% per year

*Actuarial Assumptions - Public Safety Employees*

The total pension liability for Public Safety employees in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 10 - Pension Plan: (Continued)

*Actuarial Assumptions - Public Safety Employees (Continued)*

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 10 - Pension Plan: (Continued)*Long-Term Expected Rate of Return*

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

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

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 10 - Pension Plan: (Continued)*Discount Rate*

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

*Changes in Net Pension Liability*

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 23,811,458	\$ 18,547,296	\$ 5,264,162
Changes for the year:			
Service cost	\$ 384,532	\$ -	\$ 384,532
Interest	1,624,606	-	1,624,606
Differences between expected and actual experience	(272,328)	-	(272,328)
Contributions - employer	-	624,975	(624,975)
Contributions - employee	-	183,862	(183,862)
Net investment income	-	317,657	(317,657)
Benefit payments, including refunds of employee contributions	(1,205,609)	(1,205,609)	-
Administrative expenses	-	(11,660)	11,660
Other changes	-	(135)	135
Net changes	\$ 531,201	\$ (90,910)	\$ 622,111
Balances at June 30, 2016	\$ 24,342,659	\$ 18,456,386	\$ 5,886,273

## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 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, 2015	\$ 2,943,300	\$ 2,254,248	\$ 689,052
Changes for the year:			
Service cost	\$ 56,372	\$ -	\$ 56,372
Interest	199,107	-	199,107
Differences between expected and actual experience	5,132	-	5,132
Contributions - employer	-	58,524	(58,524)
Contributions - employee	-	18,057	(18,057)
Net investment income	-	35,959	(35,959)
Benefit payments, including refunds of employee contributions	(197,840)	(197,840)	-
Administrative expenses	-	(1,449)	1,449
Other changes	-	(16)	16
Net changes	\$ 62,771	\$ (86,765)	\$ 149,536
Balances at June 30, 2016	\$ 3,006,071	\$ 2,167,483	\$ 838,588

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
City			
Net Pension Liability (Asset)	\$ 8,714,614	\$ 5,886,273	\$ 3,498,855
Component Unit School Board (nonprofessional)			
Net Pension Liability	1,146,179	838,588	575,830

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 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, 2017, the City and Component Unit School Board (nonprofessional) recognized pension expense of \$404,621 and \$85,770, respectively. At June 30, 2017, 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	\$ -	\$ 303,954	\$ 2,929	\$ 726
Change in assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	468,216	-	56,137	-
Employer contributions subsequent to the measurement date	518,385	-	61,747	-
Total	<u>\$ 986,601</u>	<u>\$ 303,954</u>	<u>\$ 120,813</u>	<u>\$ 726</u>

\$518,385 and \$61,747 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	Primary Government	Component Unit School Board (nonprofessional)
2018	\$ (148,439)	\$ 741
2019	(112,147)	(11)
2020	231,578	34,103
2021	193,270	23,507
Thereafter	-	-



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 10 - Pension Plan: (Continued)

Component Unit School Board (professional)

*Plan Description*

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

*Contributions*

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

Each School Division's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%. 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. Based on the provisions of §51.1-145 of the Code of Virginia, as amended, the contributions were funded at 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the School Board were \$820,000 and \$721,000 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, the school division reported a liability of \$9,553,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 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, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the school division's proportion was 0.06817% as compared to 0.06588% at June 30, 2015.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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)*

For the year ended June 30, 2017, the school division recognized pension expense of \$750,000. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, 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	\$ -	\$ 310,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	546,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	253,000	419,000
Employer contributions subsequent to the measurement date	<u>820,000</u>	<u>-</u>
Total	<u>\$ 1,619,000</u>	<u>\$ 729,000</u>

\$820,000 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>	
2017	\$ (136,000)
2018	(136,000)
2019	177,000
2020	160,000
Thereafter	5,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 10 - Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

*Actuarial Assumptions*

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 10 - Pension Plan: (Continued)Component Unit School Board (professional) (Continued)*Discount Rate*

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

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$ 13,618,000	\$ 9,553,000	\$ 6,205,000

*Pension Plan Fiduciary Net Position*

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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**Note 11 - Other Postemployment Benefits (OPEB) - Health Insurance:****A. Plan Description**

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

**B. Funding Policy**

The Covington City Government establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will be partially funded or fully funded in the upcoming fiscal year. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City. For fiscal year 2017, the City and School Board contributed \$52,900, and \$62,900, respectively, for current premiums and prefunding amounts.

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

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

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

	Primary Government				Component Unit School Board
	General	Water	Sewer	Total	
Annual required contribution	\$ 72,857	\$ 8,138	\$ 6,605	\$ 87,600	\$ 81,000
Interest on net OPEB obligation	15,803	1,765	1,433	19,001	10,300
Adjustment to annual required contribution	(16,468)	(1,840)	(1,493)	(19,801)	(10,700)
Annual OPEB cost (expense)	72,192	8,063	6,545	86,800	80,600
Contributions made	(43,997)	(4,914)	(3,989)	(52,900)	(62,900)
Increase in net OPEB obligation	28,195	3,149	2,556	33,900	17,700
Net OPEB obligation - beginning of year	392,436	45,905	37,863	476,204	257,900
Net OPEB obligation - end of year	\$ 420,631	\$ 49,054	\$ 40,419	\$ 510,104	\$ 275,600

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 11 - Other Postemployment Benefits (OPEB) - Health Insurance: (Continued)

## C. Annual OPEB Cost and Net OPEB Obligation

The City and City School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and two preceding years were as follows:

Entity	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
City	6/30/2017	\$ 86,800	60.94%	\$ 510,104
City	6/30/2016	84,404	60.19%	476,204
City	6/30/2015	81,600	46.57%	442,600
School Board	6/30/2017	\$ 80,600	78.04%	\$ 275,600
School Board	6/30/2016	78,400	58.29%	257,900
School Board	6/30/2015	69,400	78.24%	225,200

## D. Funded Status and Funding Progress

## City:

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

## School Board:

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

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

E. Actuarial Methods and Assumptions

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

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

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

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

A. Plan Description

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

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

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



NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

B. Funding Policy

Primary Government:

As a participating local political subdivision, the City is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2017 was 0.50% of annual covered payroll.

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

As a participating local political subdivision, the Covington School Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2017 was 0.75% of annual covered payroll.

C. Annual OPEB Cost and Net OPEB Obligation

Primary Government:

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

For 2017, the City's contribution of \$17,331 was equal to the ARC and OPEB cost. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years are as follows:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Primary Government:				
City	6/30/2017	\$ 17,331	100.00%	\$ -
	6/30/2016	17,149	100.00%	-
	6/30/2015	16,990	100.00%	-

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 12 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)

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

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

For 2017, the School Board's contribution of \$2,942 was equal to the ARC and OPEB cost. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years are as follows:

	<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
Discretely Presented Component Unit				
School Board (nonprofessional)	6/30/2017	\$ 2,942	100.00%	\$ -
	6/30/2016	3,895	100.00%	-
	6/30/2015	5,286	100.00%	-

## D. Funded Status and Funding Progress

Primary Government:

The funded status of the plan as of June 30, 2016, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 308,609
Actuarial value of plan assets	\$ 95,783
Unfunded actuarial accrued liability (UAAL)	\$ 212,826
Funded ratio (actuarial value of plan assets/AAL)	31.04%
Covered payroll (active plan members)	\$ 3,582,441
UAAL as a percentage of covered payroll	5.94%

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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

D. Funded Status and Funding Progress (Continued)

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

The funded status of the plan as of June 30, 2016, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	61,956
Actuarial value of plan assets	\$	11,097
Unfunded actuarial accrued liability (UAAL)	\$	50,859
Funded ratio (actuarial value of plan assets/AAL)		17.91%
Covered payroll (active plan members)	\$	402,245
UAAL as a percentage of covered payroll		12.64%

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

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

E. Actuarial Methods and Assumptions

Primary Government:

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining open amortization period at June 30, 2016 was 18-27 years.

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

E. Actuarial Methods and Assumptions (Continued)

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

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining open amortization period at June 30, 2016 was 18-27 years.

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

Professional Employees - Discretely Presented Component Unit School Board

A. Plan Description

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 12 - Other Postemployment Benefits (OPEB) - VRS Health Insurance Credit: (Continued)Professional Employees - Discretely Presented Component Unit School Board (Continued)

## B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.11% of annual covered payroll. The School Board's contributions to VRS for the year ended June 30, 2017 was \$62,491 and equaled the required contributions.

Note 13 - Capital Assets:

Capital asset activity for the year ended June 30, 2017 was as follows:

## Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,955,871	\$ -	\$ -	\$ 1,955,871
Construction in progress	366,660	284,446	-	651,106
Total capital assets not being depreciated	\$ 2,322,531	\$ 284,446	\$ -	\$ 2,606,977
Capital assets, being depreciated:				
Buildings and improvements	\$ 30,466,959	\$ 120,137	\$ -	\$ 30,587,096
Infrastructure	1,733,379	87,312	-	1,820,691
Machinery and equipment	8,865,860	171,020	-	9,036,880
Total capital assets being depreciated	\$ 41,066,198	\$ 378,469	\$ -	\$ 41,444,667
Accumulated depreciation:				
Buildings and improvements	\$ (8,965,843)	\$ (772,263)	\$ -	\$ (9,738,106)
Infrastructure	(490,700)	(75,187)	-	(565,887)
Machinery and equipment	(6,004,704)	(434,617)	-	(6,439,321)
Total accumulated depreciation	\$ (15,461,247)	\$ (1,282,067)	\$ -	\$ (16,743,314)
Total capital assets being depreciated, net	\$ 25,604,951	\$ (903,598)	\$ -	\$ 24,701,353
Governmental activities capital assets, net	\$ 27,927,482	\$ (619,152)	\$ -	\$ 27,308,330

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 13 - Capital Assets: (Continued)

## Primary Government: (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ <u>5,543,652</u>	\$ <u>967,637</u>	\$ <u>-</u>	\$ <u>6,511,289</u>
Capital assets, being depreciated:				
Infrastructure	\$ <u>29,958,062</u>	\$ <u>34,249</u>	\$ <u>-</u>	\$ <u>29,992,311</u>
Accumulated depreciation:				
Infrastructure	\$ <u>(11,629,927)</u>	\$ <u>(722,542)</u>	\$ <u>-</u>	\$ <u>(12,352,469)</u>
Total capital assets being depreciated, net	\$ <u>18,328,135</u>	\$ <u>(688,293)</u>	\$ <u>-</u>	\$ <u>17,639,842</u>
Business-type activities capital assets, net	\$ <u>23,871,787</u>	\$ <u>279,344</u>	\$ <u>-</u>	\$ <u>24,151,131</u>

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

Governmental activities:	
General government administration	\$ 17,961
Public safety	262,486
Public works	230,072
Health and welfare	2,528
Education	585,102
Parks, recreation, and cultural	<u>183,918</u>
Total depreciation expense-governmental activities	\$ <u>1,282,067</u>
Business-type activities:	
Water and sewer funds	\$ <u>722,542</u>
Total depreciation expense-Primary Government	\$ <u>2,004,609</u>

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## CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017Note 13 - Capital Assets: (Continued)Discretely Presented Component Unit

Capital asset activity for the School Board for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 89,663	\$ -	\$ -	\$ 89,663
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,655,854	\$ 41,828	\$ -	\$ 3,697,682
Machinery and equipment	1,098,290	68,525	-	1,166,815
Total capital assets being depreciated	\$ 4,754,144	\$ 110,353	\$ -	\$ 4,864,497
Accumulated depreciation:				
Buildings and improvements	\$ (1,858,086)	\$ (96,674)	\$ -	\$ (1,954,760)
Machinery and equipment	(908,239)	(53,685)	-	(961,924)
Total accumulated depreciation	\$ (2,766,325)	\$ (150,359)	\$ -	\$ (2,916,684)
Total capital assets being depreciated, net	\$ 1,987,819	\$ (40,006)	\$ -	\$ 1,947,813
Governmental activities capital assets, net	\$ 2,077,482	\$ (40,006)	\$ -	\$ 2,037,476

Note 14 - Risk Management:

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 15 - Contingent Liabilities:

Federal programs in which the City and its component unit participate were audited in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

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

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. \$5,385,036 is the total estimated closure and post-closure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2017. 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 2017. 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 82.7% full, including cells A and B. The life expectancy for cells A and B is 0.5 years based on an average annual disposal rate. The current year liability is based on a study performed as of that date and adjusted for inflation. Actual costs for closure and post-closure monitoring may change due to inflation, deflation, changes in technology, or changes in regulations. The City uses the Financial Assurance Mechanism to meet the Department of Environmental Quality's assurance requirements for landfill closure and post-closure costs.

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

Note 17 - Surety Bonds:

<u>Fidelity &amp; Deposit Company of Maryland-Surety:</u>	
Richard Douglas, City Manager	\$ 100,000
Theresa Harrison, City Treasurer	200,000
Cathy M. Kimberlin, Commissioner of the Revenue	3,000
All City Employees: blanket bond	100,000
All School Board Employees: blanket bond	100,000

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 18 - Deferred/Unavailable Revenue:

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

	<u>Unavailable</u>
Property taxes receivable-2nd half 2017	\$ 2,011,913
Prepaid property taxes	37,307
Total deferred revenue for governmental activities	\$ 2,049,220
Property taxes receivable due prior to June 30, 2017, not collected within 60 days	\$ 543,643
Personal property taxes relief	11,900
Total unavailable revenue for governmental funds	\$ 2,604,763

Note 19 - Construction Commitments:

	Original Contract	Amount Paid As of 6/30/2016	Remaining Contract Amount	Accounts Payable	Retainage Payable
Water Treatment Plant Imp.	\$ 925,014	\$ 614,364	\$ 310,650	\$ 310,438	\$ 30,718

Note 20 - Concentrations:

The City of Covington, Virginia relies heavily on the two plants for tax revenue and employment of citizens. MeadWestvaco directly comprises 13.90% of the real estate tax levy, not including 88.11% of the Public Service Corporation tax levy, and 44.45% of the personal property taxes, including machinery and tools tax levy, for a combined 47.40% of the total City's 2016 tax levy. Ingevity Virginia Corp. Chemical directly comprises 28.88% of the machinery and tools tax levy and 18.77% of the total City's 2017 tax levy.

Note 21 - Litigation:

As of June 30, 2017, 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 22 - Upcoming Pronouncements:

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

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

Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 86, Certain Debt Extinguishment Issues, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2017

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Note 22 - Upcoming Pronouncements: (Continued)

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring 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. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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, 2017

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 8,674,670	\$ 8,674,670	\$ 8,326,893	\$ (347,777)
Other local taxes	3,631,000	3,631,000	3,789,785	158,785
Permits, privilege fees, and regulatory licenses	9,500	9,500	7,849	(1,651)
Fines and forfeitures	4,000	4,000	4,709	709
Revenue from the use of money and property	36,400	36,400	82,744	46,344
Charges for services	1,211,550	1,211,550	1,388,085	176,535
Miscellaneous	4,100	24,100	78,867	54,767
Recovered costs	15,700	15,700	58,170	42,470
Intergovernmental:				
Commonwealth	2,804,664	3,176,539	3,657,172	480,633
Federal	496,935	1,499,393	30,536	(1,468,857)
Total Revenues	\$ 16,888,519	\$ 18,282,852	\$ 17,424,810	\$ (858,042)
EXPENDITURES				
Current:				
General government administration	\$ 1,696,915	\$ 2,231,089	\$ 1,897,928	\$ 333,161
Judicial administration	208,037	208,037	175,314	32,723
Public safety	3,406,491	3,486,671	3,355,693	130,978
Public works	2,700,909	4,166,179	2,939,220	1,226,959
Health and welfare	1,401,787	2,005,026	1,910,817	94,209
Education	3,607,418	3,607,418	3,605,449	1,969
Parks, recreation, and cultural	1,681,527	1,711,128	1,689,096	22,032
Community development	140,406	141,696	139,329	2,367
Nondepartmental	657,536	762,083	144,930	617,153
Debt service:				
Principal retirement	1,101,390	1,101,390	1,093,100	8,290
Interest and other fiscal charges	778,818	779,518	777,205	2,313
Total Expenditures	\$ 17,381,234	\$ 20,200,235	\$ 17,728,081	\$ 2,472,154
Excess (deficiency) of revenues over (under) expenditures	\$ (492,715)	\$ (1,917,383)	\$ (303,271)	\$ 1,614,112
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 392,141	\$ 432,141	\$ 432,140	\$ (1)
Net change in fund balances	\$ (100,574)	\$ (1,485,242)	\$ 128,869	\$ 1,614,111
Fund balances - beginning	100,574	1,485,242	4,425,921	2,940,679
Fund balances - ending	\$ -	\$ -	\$ 4,554,790	\$ 4,554,790

## City of Covington, Virginia

Schedule of OPEB Funding Progress  
For the Year Ended June 30, 2017

## City Postemployment Healthcare Plan

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

## City Postemployment VRS Health Insurance Credit

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2016	\$ 95,783	\$ 308,609	\$ 212,826	31.04%	\$ 3,582,441	5.94%
June 30, 2015	99,148	316,437	217,289	31.33%	3,376,579	6.44%
June 30, 2014	100,020	322,166	222,146	31.05%	3,298,379	6.74%

## School Board Postemployment Healthcare Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2015	\$ -	\$ 988,500	\$ 988,500	0.00%	\$ 5,328,600	18.55%
July 1, 2012	-	869,200	869,200	0.00%	5,575,000	15.59%
July 1, 2010	-	829,000	829,000	0.00%	5,506,000	15.06%

## School Board Postemployment VRS Health Insurance Credit

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2016	\$ 11,097	\$ 61,956	\$ 50,859	17.91%	\$ 402,245	12.64%
June 30, 2015	14,053	60,798	46,745	23.11%	464,175	10.07%
June 30, 2014	15,099	59,408	44,309	25.42%	509,436	8.70%

City of Covington, Virginia  
Schedule of Changes in Net Pension Liability and Related Ratios  
Primary Government  
For the Years Ended June 30, 2015 through June 30, 2017

	2016	2015	2014
Total pension liability			
Service cost	\$ 384,532	\$ 381,110	\$ 364,378
Interest	1,624,606	1,592,529	1,553,775
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(272,328)	(248,359)	-
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(1,205,609)	(1,328,466)	(1,400,603)
Net change in total pension liability	\$ 531,201	\$ 396,814	\$ 517,550
Total pension liability - beginning	23,811,458	23,414,644	22,897,094
Total pension liability - ending (a)	<u>\$ 24,342,659</u>	<u>\$ 23,811,458</u>	<u>\$ 23,414,644</u>
Plan fiduciary net position			
Contributions - employer	\$ 624,975	\$ 600,630	\$ 548,162
Contributions - employee	183,862	177,538	175,244
Net investment income	317,657	823,292	2,543,910
Benefit payments, including refunds of employee contributions	(1,205,609)	(1,328,466)	(1,400,603)
Administrative expense	(11,660)	(11,662)	(14,164)
Other	(135)	(171)	134
Net change in plan fiduciary net position	\$ (90,910)	\$ 261,161	\$ 1,852,683
Plan fiduciary net position - beginning	18,547,296	18,286,135	16,433,452
Plan fiduciary net position - ending (b)	<u>\$ 18,456,386</u>	<u>\$ 18,547,296</u>	<u>\$ 18,286,135</u>
City's net pension liability - ending (a) - (b)	\$ 5,886,273	\$ 5,264,162	\$ 5,128,509
Plan fiduciary net position as a percentage of the total pension liability	75.82%	77.89%	78.10%
Covered payroll	\$ 3,712,605	\$ 3,552,497	\$ 3,463,949
City's net pension liability as a percentage of covered payroll	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 Years Ended June 30, 2015 through June 30, 2017

	2016	2015	2014
Total pension liability			
Service cost	\$ 56,372	\$ 62,270	\$ 58,304
Interest	199,107	195,457	191,627
Changes of benefit terms	-	-	-
Differences between expected and actual experience	5,132	(2,890)	-
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(197,840)	(207,569)	(182,868)
Net change in total pension liability	\$ 62,771	\$ 47,268	\$ 67,063
Total pension liability - beginning	2,943,300	2,896,032	2,828,969
Total pension liability - ending (a)	<u>\$ 3,006,071</u>	<u>\$ 2,943,300</u>	<u>\$ 2,896,032</u>
Plan fiduciary net position			
Contributions - employer	\$ 58,524	\$ 76,341	\$ 91,712
Contributions - employee	18,057	23,812	26,021
Net investment income	35,959	101,524	312,953
Benefit payments, including refunds of employee contributions	(197,840)	(207,569)	(182,868)
Administrative expense	(1,449)	(1,474)	(1,725)
Other	(16)	(19)	17
Net change in plan fiduciary net position	\$ (86,765)	\$ (7,385)	\$ 246,110
Plan fiduciary net position - beginning	2,254,248	2,261,633	2,015,523
Plan fiduciary net position - ending (b)	<u>\$ 2,167,483</u>	<u>\$ 2,254,248</u>	<u>\$ 2,261,633</u>
School Division's net pension liability - ending (a) - (b)	\$ 838,588	\$ 689,052	\$ 634,399
Plan fiduciary net position as a percentage of the total pension liability	72.10%	76.59%	78.09%
Covered-employee payroll	\$ 366,880	\$ 476,240	\$ 511,831
School Division's net pension liability as a percentage of covered-employee payroll	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  
For the Year Ended June 30, 2015 through June 30, 2017\*

	2016	2015	2014
Employer's Proportion of the Net Pension Liability (Asset)	0.06817%	0.06588%	0.07007%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 9,553,000	\$ 8,292,000	\$ 8,468,000
Employer's Covered Payroll	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	183.82%	169.50%	165.22%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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  
For the Years Ended June 30, 2008 through June 30, 2017

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					
2017	\$ 518,385	\$ 518,385	\$ -	\$ 3,756,414	13.80%
2016	624,974	624,974	-	3,712,605	16.98%
2015	600,630	600,630	-	3,552,497	16.98%
2014	548,343	548,343	-	3,463,949	15.83%
2013	561,286	561,286	-	3,545,708	15.83%
2012	439,094	439,094	-	3,462,887	12.68%
2011	439,027	439,027	-	3,462,358	12.68%
2010	461,390	461,390	-	3,607,428	12.79%
2009	470,814	470,814	-	3,681,114	12.79%
2008	568,869	568,869	-	3,593,614	15.83%
Component Unit School Board (nonprofessional)					
2017	\$ 61,747	\$ 61,747	\$ -	\$ 392,295	15.87%
2016	58,731	58,731	-	366,880	16.03%
2015	76,341	76,341	-	476,240	16.03%
2014	80,357	80,357	-	511,831	15.70%
2013	76,359	76,359	-	486,362	15.70%
2012	58,842	58,842	-	516,615	11.39%
2011	56,812	56,812	-	498,789	11.39%
2010	49,559	49,559	-	521,675	9.50%
2009	52,674	52,674	-	554,464	9.50%
2008	80,605	80,605	-	599,742	13.44%
Component Unit School Board (professional)					
2017	\$ 820,000	\$ 820,000	\$ -	\$ 5,629,861	14.66%
2016	721,000	721,000	-	5,196,952	14.50%
2015	710,000	710,000	-	4,891,913	14.50%
2014	597,619	597,619	-	5,125,377	11.66%
2013	598,100	598,100	-	5,129,503	11.66%
2012	339,388	339,388	-	5,361,580	6.33%
2011	153,458	153,458	-	3,904,784	3.93%
2010	348,068	348,068	-	3,950,829	8.81%
2009	476,718	476,718	-	5,411,101	8.81%
2008	487,952	487,952	-	5,303,826	9.20%

City of Covington, Virginia  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2017

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Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by the enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

Component Unit School Board - Professional Employees

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

## Other Supplementary Information

City of Covington, Virginia  
School Debt Service Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Revenue from the use of money and property	\$ 808	\$ 808	\$ 2	\$ (806)
EXPENDITURES				
Debt service:				
Interest and other fiscal charges	\$ -	\$ -	\$ -	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ 808	\$ 808	\$ 2	\$ (806)
Net change in fund balances	\$ 808	\$ 808	\$ 2	\$ (806)
Fund balances - beginning	-	-	895	895
Fund balances - ending	\$ 808	\$ 808	\$ 897	\$ 89

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, 2017

	<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	\$ -	\$ -	\$ 4,041	\$ 4,041
Miscellaneous	-	75,000	75,000	-
Total revenues	\$ -	\$ 75,000	\$ 79,041	\$ 4,041
EXPENDITURES				
Capital projects	\$ -	\$ 810,000	\$ 381,951	\$ 428,049
Debt service:				
Bond issuance costs	-	15,000	15,000	-
Total expenditures	\$ -	\$ 825,000	\$ 396,951	\$ 428,049
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (750,000)	\$ (317,910)	\$ 432,090
OTHER FINANCING SOURCES (USES)				
Issuance of general obligation bonds	\$ -	\$ 750,000	\$ 750,000	\$ -
Total other financing sources (uses)	\$ -	\$ 750,000	\$ 750,000	\$ -
Net change in fund balances	\$ -	\$ -	\$ 432,090	\$ 432,090
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ 432,090	\$ 432,090

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL  
BOARD

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MAJOR GOVERNMENTAL FUNDS

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

City of Covington, Virginia  
Balance Sheet  
Discretely Presented Component Unit - School Board  
June 30, 2017

	School Operating Fund	School Cafeteria Fund	School Operating Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,288,195	\$ -	\$ 1,288,195
Cash in custody of others	-	6,128	6,128
Receivables (net of allowance for uncollectibles):			-
Accounts receivable	1,599	-	1,599
Due from other governmental units	312,323	-	312,323
Inventories	-	11,740	11,740
Prepaid items	22,115	-	22,115
Total assets	<u>\$ 1,624,232</u>	<u>\$ 17,868</u>	<u>\$ 1,642,100</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 540,894	\$ -	\$ 540,894
Accrued liabilities	721,395	-	721,395
Due to primary government	326,706	-	326,706
Total liabilities	<u>\$ 1,588,995</u>	<u>\$ -</u>	<u>\$ 1,588,995</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Prepaid items	\$ 22,115	\$ -	\$ 22,115
Inventory	-	11,740	11,740
Assigned:			
Textbook Funds	35,186	-	35,186
Unassigned	(22,064)	6,128	(15,936)
Total fund balances	<u>\$ 35,237</u>	<u>\$ 17,868</u>	<u>\$ 53,105</u>
Total liabilities and fund balances	<u>\$ 1,624,232</u>	<u>\$ 17,868</u>	<u>\$ 1,642,100</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:			
Total fund balances per above			\$ 53,105
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Land		\$ 89,663	
Buildings and improvements		1,742,922	
Machinery, equipment, and vehicles		<u>204,891</u>	2,037,476
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Deferred inflows related to measurement of net pension liability			(729,726)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.			
			881,747
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.			
Compensated absences		\$ (380,902)	
Net OPEB obligation		(275,600)	
Net pension liability		(10,391,588)	
Deferred outflows related to measurement of net pension liability		<u>858,066</u>	(10,190,024)
Net position of governmental activities			<u>\$ (7,947,422)</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, 2017

	School Operating Fund	School Cafeteria Fund	Total School Fund
<b>REVENUES</b>			
Revenue from the use of money and property	\$ 1,766	\$ 12	\$ 1,778
Charges for services	-	68,514	68,514
Miscellaneous	119,683	-	119,683
Recovered costs	44,445	-	44,445
Intergovernmental:			
Local government	3,602,135	-	3,602,135
Commonwealth	6,595,902	10,667	6,606,569
Federal	686,862	341,636	1,028,498
Total revenues	<u>\$ 11,050,793</u>	<u>\$ 420,829</u>	<u>\$ 11,471,622</u>
<b>EXPENDITURES</b>			
Current:			
Education	\$ 10,881,332	\$ 561,102	\$ 11,442,434
Total expenditures	<u>\$ 10,881,332</u>	<u>\$ 561,102</u>	<u>\$ 11,442,434</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 169,461</u>	<u>\$ (140,273)</u>	<u>\$ 29,188</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	\$ -	\$ 220,738	\$ 220,738
Transfers out	(220,738)	-	(220,738)
Total other financing sources (uses)	<u>\$ (220,738)</u>	<u>\$ 220,738</u>	<u>\$ -</u>
Net change in fund balances	\$ (51,277)	\$ 80,465	\$ 29,188
Fund balances - beginning	86,514	(62,597)	23,917
Fund balances - ending	<u>\$ 35,237</u>	<u>\$ 17,868</u>	<u>\$ 53,105</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			\$ 29,188
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		\$ 110,353	
Depreciation expense		<u>(150,359)</u>	(40,006)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Change in deferred inflows related to the measurement of the net pension liability/asset			500,224
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		\$ (16,939)	
(Increase) decrease in net OPEB obligation		(17,700)	
Change in net pension liability/asset		(1,410,536)	
Change in deferred outflows related to pensions		<u>960,082</u>	(485,093)
Change in net position of governmental activities			<u>\$ 4,313</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, 2017

	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		
<b>REVENUES</b>								
Revenue from the use of money and property	\$ 500	\$ 500	\$ 1,766	\$ 1,266	\$ -	\$ -	\$ 12	\$ 12
Charges for services	-	-	-	-	-	-	68,514	68,514
Miscellaneous	555,352	597,352	119,683	(477,669)	-	-	-	-
Recovered costs	55,000	55,000	44,445	(10,555)	-	-	-	-
Intergovernmental:								
Local government	3,904,104	3,904,104	3,602,135	(301,969)	-	-	-	-
Commonwealth	6,566,618	6,600,080	6,595,902	(4,178)	4,771	4,771	10,667	5,896
Federal	570,601	641,000	686,862	45,862	300,000	300,000	341,636	41,636
Total revenues	\$ 11,652,175	\$ 11,798,036	\$ 11,050,793	\$ (747,243)	\$ 304,771	\$ 304,771	\$ 420,829	\$ 116,058
<b>EXPENDITURES</b>								
Current:								
Education	\$ 11,452,426	\$ 11,641,848	\$ 10,881,332	\$ 760,516	\$ 504,520	\$ 547,583	\$ 561,102	\$ (13,519)
Total expenditures	\$ 11,452,426	\$ 11,641,848	\$ 10,881,332	\$ 760,516	\$ 504,520	\$ 547,583	\$ 561,102	\$ (13,519)
Excess (deficiency) of revenues over (under) expenditures	\$ 199,749	\$ 156,188	\$ 169,461	\$ 13,273	\$ (199,749)	\$ (242,812)	\$ (140,273)	\$ 102,539
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 199,749	\$ 242,812	\$ 220,738	\$ (22,074)
Transfers out	(199,749)	(242,812)	(220,738)	22,074	-	-	-	-
Total other financing sources (uses)	\$ (199,749)	\$ (242,812)	\$ (220,738)	\$ 22,074	\$ 199,749	\$ 242,812	\$ 220,738	\$ (22,074)
Net change in fund balances	\$ -	\$ (86,624)	\$ (51,277)	\$ 35,347	\$ -	\$ -	\$ 80,465	\$ 80,465
Fund balances - beginning	-	86,624	86,514	(110)	-	-	(62,597)	(62,597)
Fund balances - ending	\$ -	\$ -	\$ 35,237	\$ 35,237	\$ -	\$ -	\$ 17,868	\$ 17,868

## Supporting Schedules

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Schedule 1  
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 2,191,948	\$ 2,191,948	\$ 2,160,624	\$ (31,324)
Real and personal public service corporation taxes	2,026,278	2,026,278	2,098,051	71,773
Personal property taxes	1,555,000	1,555,000	1,049,449	(505,551)
Mobile home taxes	7,044	7,044	7,803	759
Machinery and tools taxes	2,824,400	2,824,400	2,902,480	78,080
Penalties	40,000	40,000	58,669	18,669
Interest and fees	30,000	30,000	49,817	19,817
Total general property taxes	\$ 8,674,670	\$ 8,674,670	\$ 8,326,893	\$ (347,777)
Other local taxes:				
Local sales and use taxes	\$ 1,260,000	\$ 1,260,000	\$ 1,244,112	\$ (15,888)
Consumers' utility taxes	350,000	350,000	412,346	62,346
Consumption taxes	37,000	37,000	22,075	(14,925)
Business license taxes	530,000	530,000	521,918	(8,082)
Franchise license taxes	-	-	21,778	21,778
Motor vehicle licenses	135,000	135,000	139,780	4,780
Bank stock taxes	165,000	165,000	197,966	32,966
Recordation tax	20,000	20,000	23,126	3,126
Hotel and motel room taxes	14,000	14,000	18,636	4,636
Restaurant food taxes	1,015,000	1,015,000	1,063,404	48,404
Tobacco taxes	105,000	105,000	124,644	19,644
Total other local taxes	\$ 3,631,000	\$ 3,631,000	\$ 3,789,785	\$ 158,785
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 400	\$ 400	\$ 515	\$ 115
Land use fees	300	300	372	72
Zoning and subdivision permits	500	500	740	240
Building permits	8,100	8,100	5,885	(2,215)
Other permits and licenses	200	200	337	137
Total permits, privilege fees, and regulatory licenses	\$ 9,500	\$ 9,500	\$ 7,849	\$ (1,651)
Fines and forfeitures:				
Court fines and forfeitures	\$ 4,000	\$ 4,000	\$ 4,709	\$ 709
Revenue from use of money and property:				
Revenue from use of money	\$ 22,400	\$ 22,400	\$ 66,456	\$ 44,056
Revenue from use of property	14,000	14,000	16,288	2,288
Total revenue from use of money and property	\$ 36,400	\$ 36,400	\$ 82,744	\$ 46,344
Charges for services:				
Charges for fire and rescue services	\$ 300,000	\$ 300,000	\$ 255,085	\$ (44,915)
Charges for sanitation and waste removal	780,800	780,800	965,769	184,969
Charges for parks and recreation	40,000	40,000	45,839	5,839
Charges for landfill closure	49,350	49,350	70,897	21,547
Charges for cemetery	41,000	41,000	50,222	9,222
Charges for other services	400	400	273	(127)
Total charges for services	\$ 1,211,550	\$ 1,211,550	\$ 1,388,085	\$ 176,535
Miscellaneous:				
Miscellaneous	\$ 4,100	\$ 24,100	\$ 78,867	\$ 54,767

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Schedule 1  
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (continued)				
Recovered costs:				
CSA recoveries	\$ 3,700	\$ 3,700	\$ 10,984	\$ 7,284
Other recovered costs	12,000	12,000	47,186	35,186
Total recovered costs	<u>\$ 15,700</u>	<u>\$ 15,700</u>	<u>\$ 58,170</u>	<u>\$ 42,470</u>
Total revenue from local sources	<u>\$ 13,586,920</u>	<u>\$ 13,606,920</u>	<u>\$ 13,737,102</u>	<u>\$ 130,182</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 40,000	\$ 40,000	\$ 15,702	\$ (24,298)
Mobile home titling tax	1,000	1,000	1,530	530
Motor vehicle rental tax	-	-	19,868	19,868
State recordation tax	-	-	5,005	5,005
Telecommunications taxes	305,000	305,000	293,077	(11,923)
Personal property tax relief funds	-	-	558,310	558,310
Total noncategorical aid	<u>\$ 346,000</u>	<u>\$ 346,000</u>	<u>\$ 893,492</u>	<u>\$ 547,492</u>
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 75,538	\$ 75,538	\$ 74,548	\$ (990)
Treasurer	69,586	69,586	66,191	(3,395)
Registrar/electoral board	35,000	35,000	35,122	122
Total shared expenses	<u>\$ 180,124</u>	<u>\$ 180,124</u>	<u>\$ 175,861</u>	<u>\$ (4,263)</u>
Other categorical aid:				
Welfare payments	\$ 181,975	\$ 181,975	\$ 33,988	\$ (147,987)
CSA payments	759,837	1,125,443	1,061,596	(63,847)
Litter control grant	6,100	6,100	5,966	(134)
Fire program	21,500	21,500	20,000	(1,500)
Asset forfeiture	2,000	5,862	3,861	(2,001)
Law enforcement block grant	257,128	257,128	265,408	8,280
State highway payments	1,000,700	1,000,700	1,038,500	37,800
E-911 grant program	39,000	39,000	43,472	4,472
Emergency medical services	5,200	5,200	5,455	255
VA commission for the arts	5,000	5,000	5,000	-
Disaster recovery	-	-	102,240	102,240
Other State funds	100	2,507	2,333	(174)
Total other categorical aid	<u>\$ 2,278,540</u>	<u>\$ 2,650,415</u>	<u>\$ 2,587,819</u>	<u>\$ (62,596)</u>
Total categorical aid	<u>\$ 2,458,664</u>	<u>\$ 2,830,539</u>	<u>\$ 2,763,680</u>	<u>\$ (66,859)</u>
Total revenue from the Commonwealth	<u>\$ 2,804,664</u>	<u>\$ 3,176,539</u>	<u>\$ 3,657,172</u>	<u>\$ 480,633</u>

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Schedule 1  
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Transportation enhancement grant	\$ 485,968	\$ 1,488,426	\$ -	\$ (1,488,426)
DMV grant	6,900	6,900	441	(6,459)
Byrne criminal justice grant	4,067	4,067	-	(4,067)
Public assistance and welfare administration	-	-	30,095	30,095
Total categorical aid	<u>\$ 496,935</u>	<u>\$ 1,499,393</u>	<u>\$ 30,536</u>	<u>\$ (1,468,857)</u>
Total revenue from the federal government	<u>\$ 496,935</u>	<u>\$ 1,499,393</u>	<u>\$ 30,536</u>	<u>\$ (1,468,857)</u>
Total General Fund	<u><u>\$ 16,888,519</u></u>	<u><u>\$ 18,282,852</u></u>	<u><u>\$ 17,424,810</u></u>	<u><u>\$ (858,042)</u></u>
Debt Service Fund:				
School Debt Service Reserve Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	<u>\$ 808</u>	<u>\$ 808</u>	<u>\$ 2</u>	<u>\$ (806)</u>
Total School Debt Service Fund	<u><u>\$ 808</u></u>	<u><u>\$ 808</u></u>	<u><u>\$ 2</u></u>	<u><u>\$ (806)</u></u>
Capital Projects Fund:				
School Construction Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,041</u>	<u>\$ 4,041</u>
Miscellaneous:				
Other miscellaneous	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ -</u>
Total revenue from local sources	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 79,041</u>	<u>\$ 4,041</u>
Total School Construction Fund	<u><u>\$ -</u></u>	<u><u>\$ 75,000</u></u>	<u><u>\$ 79,041</u></u>	<u><u>\$ 4,041</u></u>
Total Primary Government	<u><u>\$ 16,889,327</u></u>	<u><u>\$ 18,358,660</u></u>	<u><u>\$ 17,503,853</u></u>	<u><u>\$ (854,807)</u></u>
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279</u>	<u>\$ 279</u>
Revenue from the use of property	<u>500</u>	<u>500</u>	<u>1,487</u>	<u>987</u>
Total revenue from use of money and property	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 1,766</u>	<u>\$ 1,266</u>
Miscellaneous:				
Miscellaneous	<u>\$ 555,352</u>	<u>\$ 597,352</u>	<u>\$ 119,683</u>	<u>\$ (477,669)</u>
Recovered costs:				
Payments from other localities	<u>\$ 55,000</u>	<u>\$ 55,000</u>	<u>\$ 44,445</u>	<u>\$ (10,555)</u>
Total revenue from local sources	<u>\$ 610,852</u>	<u>\$ 652,852</u>	<u>\$ 165,894</u>	<u>\$ (486,958)</u>
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Covington, Virginia	<u>\$ 3,904,104</u>	<u>\$ 3,904,104</u>	<u>\$ 3,602,135</u>	<u>\$ (301,969)</u>

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Schedule 1  
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Algebra readiness	\$ 16,960	\$ 16,960	\$ 14,483	\$ (2,477)
VA preschool initiative	154,286	154,286	154,286	-
At risk payments	127,171	127,171	128,073	902
Basic school aid	3,175,993	3,175,993	3,222,882	46,889
Dropout prevention	-	-	6,323	6,323
Compensation supplement	52,575	52,575	-	(52,575)
Early reading intervention	35,249	35,249	54,049	18,800
Education technology payment	159,200	159,200	151,427	(7,773)
English as a second language	-	-	931	931
Fringe benefits	459,150	459,150	462,472	3,322
Gifted and talented	32,894	32,894	33,132	238
ISAP program	7,859	7,859	8,418	559
Lottery funds	35,923	35,923	58,063	22,140
Mentor teacher program	904	904	1,149	245
Primary class size	145,954	145,954	150,895	4,941
Remedial education	152,822	152,822	153,927	1,105
School security grant	-	33,462	37,688	4,226
Remedial summer education	40,023	40,023	36,418	(3,605)
Share of state sales tax	1,008,886	1,008,886	982,804	(26,082)
Social security fringe benefits	215,869	215,869	217,431	1,562
Special education	591,482	591,482	592,241	759
Special education - foster children	15,089	15,089	25,392	10,303
Special education - homebound	-	-	975	975
Textbook payment	75,233	75,233	52,844	(22,389)
Vocational education	59,621	59,621	45,147	(14,474)
Vocational education - equipment	3,475	3,475	4,452	977
Total categorical aid	\$ 6,566,618	\$ 6,600,080	\$ 6,595,902	\$ (4,178)
Total revenue from the Commonwealth	\$ 6,566,618	\$ 6,600,080	\$ 6,595,902	\$ (4,178)
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 215,000	\$ 215,000	\$ 237,910	\$ 22,910
Title VI, rural and low income schools	18,000	18,000	8,820	(9,180)
Title VI-B, special education flow-through	220,757	220,757	236,501	15,744
Vocational education	17,500	17,500	17,805	305
Title VI-B, special education pre-school	10,273	10,273	10,194	(79)
Gear-up VA project	37,071	107,470	78,230	(29,240)
Title II, Part A	52,000	52,000	97,402	45,402
Total categorical aid	\$ 570,601	\$ 641,000	\$ 686,862	\$ 45,862
Total revenue from the federal government	\$ 570,601	\$ 641,000	\$ 686,862	\$ 45,862
Total School Operating Fund	\$ 11,652,175	\$ 11,798,036	\$ 11,050,793	\$ (747,243)

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
School Cafeteria Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of property	\$ -	\$ -	\$ 12	\$ 12
Charges for services:				
Cafeteria sales	\$ -	\$ -	\$ 68,514	\$ 68,514
Total revenue from local sources	\$ -	\$ -	\$ 68,526	\$ 68,526
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food program grant	\$ 4,771	\$ 4,771	\$ 10,667	\$ 5,896
Total revenue from the Commonwealth	\$ 4,771	\$ 4,771	\$ 10,667	\$ 5,896
Revenue from the federal government:				
Categorical aid:				
School food program grant	\$ 300,000	\$ 300,000	\$ 341,636	\$ 41,636
Total revenue from the federal government	\$ 300,000	\$ 300,000	\$ 341,636	\$ 41,636
Total School Cafeteria Fund	\$ 304,771	\$ 304,771	\$ 420,829	\$ 116,058
Total Discretely Presented Component Unit - School Board	\$ 11,956,946	\$ 12,102,807	\$ 11,471,622	\$ (631,185)



City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Schedule 2  
Page 1 of 4

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
City council	\$ 44,118	\$ 47,185	\$ 47,013	\$ 172
City clerk	16,282	25,799	15,364	10,435
Total legislative	\$ 60,400	\$ 72,984	\$ 62,377	\$ 10,607
General and financial administration:				
City manager	\$ 285,191	\$ 315,073	\$ 314,600	\$ 473
Human resources	-	67,000	66,871	129
Information technology	70,400	81,075	80,910	165
Legal services	60,458	77,089	74,588	2,501
Commissioner of revenue	243,060	240,271	238,378	1,893
Independent auditors	57,956	58,515	58,511	4
Treasurer	258,038	263,939	250,337	13,602
Central accounting	514,504	905,575	601,858	303,717
Total general and financial administration	\$ 1,489,607	\$ 2,008,537	\$ 1,686,053	\$ 322,484
Board of elections:				
Electoral board and officials	\$ 146,908	\$ 149,568	\$ 149,498	\$ 70
Total general government administration	\$ 1,696,915	\$ 2,231,089	\$ 1,897,928	\$ 333,161
Judicial administration:				
Courts:				
Circuit court	\$ 10,524	\$ 13,393	\$ 13,393	\$ -
General district court	5,398	5,398	4,670	728
Magistrates office	2,000	2,000	1,584	416
Clerk of the circuit court	41,307	38,438	38,133	305
Sheriff (court)	99,889	99,889	70,285	29,604
Total courts	\$ 159,118	\$ 159,118	\$ 128,065	\$ 31,053
Commonwealth's attorney:				
Commonwealth's attorney	\$ 48,919	\$ 48,919	\$ 47,249	\$ 1,670
Total judicial administration	\$ 208,037	\$ 208,037	\$ 175,314	\$ 32,723
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,741,985	\$ 1,786,258	\$ 1,740,053	\$ 46,205
Sheriff	254,513	237,178	237,178	-
Victim witness	-	2,407	541	1,866
E-911 wireless grant	567,908	558,107	549,342	8,765
Seizure/forfeiture funds	2,500	6,362	3,595	2,767
Total law enforcement and traffic control	\$ 2,566,906	\$ 2,590,312	\$ 2,530,709	\$ 59,603
Fire and rescue services:				
Volunteer fire department	\$ 244,201	\$ 253,653	\$ 214,099	\$ 39,554
Ambulance service	108,411	133,210	116,448	16,762
Total fire and rescue services	\$ 352,612	\$ 386,863	\$ 330,547	\$ 56,316
Correction and detention:				
Sheriff (jail)	\$ 211,205	\$ 229,426	\$ 229,426	\$ -
Probation office	5,061	4,238	4,238	-
Total correction and detention	\$ 216,266	\$ 233,664	\$ 233,664	\$ -
Inspections:				
Building	\$ 137,550	\$ 140,338	\$ 126,974	\$ 13,364

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Public safety: (continued)				
Other protection:				
Animal control	\$ 133,107	\$ 135,394	\$ 133,699	\$ 1,695
Medical examiner	50	100	100	-
Total other protection	\$ 133,157	\$ 135,494	\$ 133,799	\$ 1,695
Total public safety	\$ 3,406,491	\$ 3,486,671	\$ 3,355,693	\$ 130,978
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 38,000	\$ 15,570	\$ 8,785	\$ 6,785
Street department	1,114,897	1,184,004	1,084,665	99,339
Snow and ice removal	34,352	8,689	7,915	774
Traffic engineering	88,503	130,005	127,154	2,851
Street cleaning	11,000	7,970	7,559	411
Street lights	158,000	170,000	164,862	5,138
Transportation enhancement-pedestrian/bridge improvements	-	1,002,458	-	1,002,458
Total maintenance of highways, streets, bridges and sidewalks	\$ 1,444,752	\$ 2,518,696	\$ 1,400,940	\$ 1,117,756
Sanitation and waste removal:				
Refuse collection	\$ 308,546	\$ 300,817	\$ 296,460	\$ 4,357
Refuse disposal	364,634	678,839	589,515	89,324
Landfill closure	4,350	11,571	11,570	1
Litter control grant	6,100	6,100	6,100	-
Recycling program	34,924	34,924	34,920	4
Total sanitation and waste removal	\$ 718,554	\$ 1,032,251	\$ 938,565	\$ 93,686
Maintenance of general buildings and grounds:				
General properties	\$ 300,406	\$ 373,279	\$ 361,418	\$ 11,861
Motor vehicular maintenance	237,197	241,953	238,297	3,656
Total maintenance of general buildings and grounds	\$ 537,603	\$ 615,232	\$ 599,715	\$ 15,517
Total public works	\$ 2,700,909	\$ 4,166,179	\$ 2,939,220	\$ 1,226,959
Health and welfare:				
Health:				
Supplement of local health department	\$ 99,369	\$ 99,369	\$ 97,725	\$ 1,644
Mental health and mental retardation:				
Alleghany Highlands community services board	\$ 43,665	\$ 43,665	\$ 43,665	\$ -
Welfare:				
Radar transportation Service	\$ 15,000	\$ 23,500	\$ 23,500	\$ -
Feeding America	1,250	1,250	1,250	-
Safehomes, Inc.	2,000	7,781	7,781	-
Jackson river enterprise	12,000	50,310	50,310	-
Alleghany historical society	-	3,433	3,433	-
Alleghany Highlands CSA foster care	1,016,003	1,503,218	1,419,578	83,640
Social Services	205,500	265,500	236,888	28,612
Other Contributions	7,000	7,000	-	7,000
Property tax relief for the elderly	-	-	26,687	(26,687)
Total welfare	\$ 1,258,753	\$ 1,861,992	\$ 1,769,427	\$ 92,565
Total health and welfare	\$ 1,401,787	\$ 2,005,026	\$ 1,910,817	\$ 94,209

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Education:				
Other instructional costs:				
Contributions to Community College	\$ 3,314	\$ 3,314	\$ 3,314	\$ -
Contribution to City School Board	3,604,104	3,604,104	3,602,135	1,969
Total education	<u>\$ 3,607,418</u>	<u>\$ 3,607,418</u>	<u>\$ 3,605,449</u>	<u>\$ 1,969</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	<u>\$ 1,162,065</u>	<u>\$ 1,216,864</u>	<u>\$ 1,206,845</u>	<u>\$ 10,019</u>
Cultural enrichment:				
Senior center	\$ 122,248	\$ 106,856	\$ 104,206	\$ 2,650
Cemetery	260,241	250,435	241,172	9,263
League of older Americans	2,502	2,502	2,502	-
YMCA	3,100	3,100	3,100	-
Alleghany Highlands arts council	7,200	7,200	7,200	-
Alleghany Highlands arts/craft center	2,800	2,800	2,800	-
Total cultural enrichment	<u>\$ 398,091</u>	<u>\$ 372,893</u>	<u>\$ 360,980</u>	<u>\$ 11,913</u>
Library:				
Contribution to regional library	<u>\$ 121,371</u>	<u>\$ 121,371</u>	<u>\$ 121,271</u>	<u>\$ 100</u>
Total parks, recreation, and cultural	<u>\$ 1,681,527</u>	<u>\$ 1,711,128</u>	<u>\$ 1,689,096</u>	<u>\$ 22,032</u>
Community development:				
Planning and community development:				
Planning commission	\$ 8,337	\$ 8,337	\$ 8,318	\$ 19
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	1,444	1,444	375	1,069
Economic development	102,682	103,972	103,915	57
Total planning and community development	<u>\$ 132,463</u>	<u>\$ 133,753</u>	<u>\$ 132,608</u>	<u>\$ 1,145</u>
Environmental management:				
Contribution to soil and water district	<u>\$ 2,500</u>	<u>\$ 2,500</u>	<u>\$ 2,500</u>	<u>\$ -</u>
Cooperative extension program:				
Extension office	<u>\$ 5,443</u>	<u>\$ 5,443</u>	<u>\$ 4,221</u>	<u>\$ 1,222</u>
Total community development	<u>\$ 140,406</u>	<u>\$ 141,696</u>	<u>\$ 139,329</u>	<u>\$ 2,367</u>
Nondepartmental:				
Contingencies	\$ 70,994	\$ 167,261	\$ 109,637	\$ 57,624
Other nondepartmental	586,542	594,822	35,293	559,529
Total nondepartmental	<u>\$ 657,536</u>	<u>\$ 762,083</u>	<u>\$ 144,930</u>	<u>\$ 617,153</u>
Debt service:				
Principal retirement	\$ 1,101,390	\$ 1,101,390	\$ 1,093,100	\$ 8,290
Interest and other fiscal charges	778,818	779,518	777,205	2,313
Total debt service	<u>\$ 1,880,208</u>	<u>\$ 1,880,908</u>	<u>\$ 1,870,305</u>	<u>\$ 10,603</u>
Total General Fund	<u><u>\$ 17,381,234</u></u>	<u><u>\$ 20,200,235</u></u>	<u><u>\$ 17,728,081</u></u>	<u><u>\$ 2,472,154</u></u>

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2017

Schedule 2  
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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Capital projects fund:				
School Construction Fund:				
Capital Outlay:				
School construction	\$ -	\$ 810,000	\$ 381,951	\$ 428,049
Debt Service				
Bond issuance costs	\$ -	\$ 15,000	\$ 15,000	\$ -
Total School Construction Fund	\$ -	\$ 825,000	\$ 396,951	\$ 428,049
Total Primary Government	\$ 17,381,234	\$ 21,025,235	\$ 18,125,032	\$ 2,900,203
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Education:				
Administration of schools:				
Attendance and health services	\$ 745,857	\$ 737,123	\$ 723,667	\$ 13,456
Instruction costs:				
Instruction costs	\$ 9,073,363	\$ 9,252,344	\$ 8,864,338	\$ 388,006
School food services:				
Administration of school food program	\$ 287,000	\$ 324,178	\$ -	\$ 324,178
Operating costs:				
Pupil transportation	\$ 274,700	\$ 284,057	\$ 272,273	\$ 11,784
Operation and maintenance of school plant	1,071,506	1,044,146	1,021,054	23,092
Total operating costs	\$ 1,346,206	\$ 1,328,203	\$ 1,293,327	\$ 34,876
Total School Operating Fund	\$ 11,452,426	\$ 11,641,848	\$ 10,881,332	\$ 760,516
School Cafeteria Fund:				
Education:				
School food services:				
Administration of school food program	\$ 504,520	\$ 547,583	\$ 561,102	\$ (13,519)
Total School Cafeteria Fund	\$ 504,520	\$ 547,583	\$ 561,102	\$ (13,519)
Total Discretely Presented Component Unit - School Board	\$ 11,956,946	\$ 12,189,431	\$ 11,442,434	\$ 746,997

## 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
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
2008-09	1,580,103	61,292	2,979,472	3,802,359	1,494,392	4,551,266	1,195,610	110,214	864,835	1,243,549	1,004,442	18,887,534
2007-08	1,429,516	78,185	2,770,525	3,824,813	1,361,609	4,183,893	1,220,322	107,562	894,475	1,244,985	976,235	18,092,120

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
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
2008-09	4,006,079	2,696,980	4,900		6,937,869	3,396,974	237,828	94,651	825,521	-	18,200,802
2007-08	4,074,449	3,076,482	2,800		6,618,780	3,533,607	574,455	124,710	-	-	18,005,283
2006-07	3,947,907	2,343,564	441,313		6,984,763	3,452,298	79,295	567,379	843,290	-	18,659,809

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
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
2008-09	1,391,596	61,292	2,852,747	2,825,693	1,514,709	10,524,500	1,390,990	110,214	13,001,350	20,118	1,562,846	35,256,055
2007-08	1,433,034	78,185	2,589,022	3,877,615	1,397,869	10,692,037	1,329,602	107,562	9,022,652	816	1,548,023	32,076,417

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

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

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



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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property			Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
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		
2008-09	6,915,610	3,396,974	10,169	42,445	240,204	1,121,997	178,158	288,769	9,786,230	21,980,556		
2007-08	6,949,940	3,533,607	15,574	32,644	575,228	1,095,585	122,925	171,692	9,546,958	22,044,153		

(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
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%
2008-09	7,383,021	7,300,339	98.88%	67,143	7,367,482	99.79%	407,773	5.52%
2007-08	7,412,981	6,803,543	91.78%	73,600	6,877,143	92.77%	512,105	6.91%

(1) Exclusive of penalties and interest.

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

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

Table 6

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

Fiscal Year	Real Estate (1)	Personal Property and Mobile Homes	Machinery and Tools	Public Utility (2)			Total
				Real Estate	Personal Property		
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
2008-09	281,865,500	22,555,370	75,747,170	21,429,843	72,863		401,670,746
2007-08	280,613,600	22,563,190	76,476,640	19,700,864	7,786		399,362,080

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

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

Table 7

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

Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
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
2008-09	0.66	0.66	5.60	5.52
2007-08	0.66	0.66	5.60	5.52

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
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
2008-09	6,303	401,671	32,624,875	8.12%	5,176
2007-08	6,303	399,362	33,812,244	8.47%	5,364

(1) Bureau of the Census.

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

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

Table 9

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

Fiscal Year	Principal (3)	Interest (2)	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
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	777,205	1,187,259	1,964,464	23,755,209	8.27%
2013-14	314,436	890,113	1,204,549	21,940,437	5.49%
2012-13	473,155	971,983	1,445,138	22,005,609	6.57%
2011-12	532,023	1,193,165	1,725,188	22,953,158	7.52%
2010-11	551,540	1,257,312	1,808,852	22,141,693	8.17%
2009-10	569,703	1,231,459	1,801,162	22,921,533	7.86%
2008-09	668,841	894,005	1,562,846	35,256,055	4.43%
2007-08	650,800	237,312	888,112	32,076,417	2.77%

(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, 2017

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## Legal Debt Limit:

10% of Assessed Value of Taxable Real Estate \$286,698,566	\$ 28,669,857
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## Deduct:

Debt Payable	25,434,047
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Legal Margin for Creation of Additional Debt	<u>\$ 3,235,810</u>
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## COMPLIANCE SECTION

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit and each major fund of the City of Covington, Virginia, as of and for the year ended June 30, 2017, 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 9, 2017.

### Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. [2017-001]

## 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.

*Polina, Fawcett, & Associates*

Blacksburg, Virginia  
November 9, 2017

# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

### Report on Compliance for Each Major Federal Program

We have audited the City of Covington, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Covington, Virginia's, major federal programs for the year ended June 30, 2017. City of Covington, Virginia, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the City of Covington, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Covington, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### *Opinion on Each Major Federal Program*

In our opinion, the City of Covington, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## Report on Internal Control over Compliance

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

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

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

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



Blacksburg, Virginia  
November 9, 2017

City of Covington, Virginia  
Schedule of Expenditures of Federal Awards (SEFA)  
For the Year Ended June 30, 2017

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number		Federal Expenditures
<i>DEPARTMENT OF AGRICULTURE:</i>				
Pass Through Payments:				
Child Nutrition Cluster:				
<i>Department of Agriculture:</i>				
Food Distribution-Schools (Note 3)	10.555	Not available	\$ 26,535	
<i>Department of Education:</i>				
National School Lunch Program	10.555	40623	<u>236,999</u>	\$ 263,534
<i>Department of Education:</i>				
School Breakfast Program	10.553	40591	77,172	
Summer Food Service Program for Children	10.559		<u>930</u>	\$ 341,636
Total Department of Agriculture				<u>\$ 341,636</u>
<i>DEPARTMENT OF EDUCATION:</i>				
Pass Through Payments:				
<i>Department of Education:</i>				
Title I - Grants to Local Educational Agencies	84.010	42901		\$ 237,910
Special Education Cluster:				
Special Education - Grants to States	84.027	43071	236,501	
Special Education - Preschool Grants	84.173	62521	<u>10,194</u>	246,695
Career and Technical Education - Basic Grants to States	84.048	61095		17,805
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	84.367	61480		97,402
Rural Education	84.358	43481		8,820
Gaining Early Awareness and Readiness of Undergraduate Programs	84.334	Not available		<u>78,230</u>
Total Department of Education				<u>\$ 686,862</u>
<i>DEPARTMENT OF TRANSPORTATION:</i>				
Pass Through Payments:				
<i>Department of Motor Vehicles:</i>				
State and Community Highway Safety	20.600	154AL 15 55081		<u>\$ 441</u>
<i>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</i>				
Pass Through Payments:				
<i>Department of Social Services:</i>				
Temporary Assistance for Needy Families	93.558	0400115, 0400116		\$ 4,591
Child Care and Development Block Grant	93.575	0770115, 0770116		(152)
Adoption Assistance	93.659	1120115, 1120116		6,650
Social Services Block Grant	93.667	1000115, 1000116		<u>19,006</u>
Total Department of Health and Human Services				<u>\$ 30,095</u>
Total Expenditures of Federal Awards				<u>\$ 1,059,034</u>

Notes to the SEFA follow this page

City of Covington, Virginia  
Schedule of Expenditures of Federal Awards (SEFA)  
For the Year Ended June 30, 2017

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## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

## NOTE 1--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Covington, Virginia under programs of the federal government for the year ended June 30, 2017. 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 minimus 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, 2017, the Covington City School Board held food commodities totaling \$26,535 in inventory.

## NOTE 4--SUBRECIPIENTS:

The City did not have any subrecipients for the year ended June 30, 2017.

## 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	\$ 30,536
Component Unit School Board:	
School Operating Fund	\$ 686,862
School Cafeteria Fund	341,636
Total Component Unit School Board	<u>\$ 1,028,498</u>
Total Federal Expenditures per Basic Financial Statements	<u><u>\$ 1,059,034</u></u>

City of Covington, Virginia

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017

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Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR Section 200.516(a)	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.553/10.555/10.559	Child Nutrition Cluster
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

2017-001	
Criteria:	A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.
Condition:	The City lacks proper segregation of duties over the following functions: Collections in the Treasurer's office and Accounts Payable and Payroll processes.
Effect of Condition:	There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.
Cause of Condition:	The City lacks the funding to fully support a completely segregated finance department.

Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2017

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Section II - Financial Statement Findings (Continued)

2017-001 (Continued)

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

Management's Response: Management acknowledges that internal controls over the functions listed above lack proper segregation of duties and is considering ways to improve its segregation of duties over its accounts payable and payroll processes. In addition, the City acknowledges that the Treasurer's office lacks proper segregation of duties, however, to alleviate same would require additional staff. 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

None