

CITY OF COVINGTON, VIRGINIA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010

CITY OF COVINGTON, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2010

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INTRODUCTORY SECTION

CITY OF COVINGTON, VIRGINIA

CITY COUNCIL

David C. Bryant, Jr.	William B. Zimmerman, Jr., Mayor	Robert K. Bennett, II, Vice-Mayor
Stephanie R. Clark		Earl Brown

CITY SCHOOL BOARD

Richard Fuhrman, Vice-Chairman	Thomas D. Warlitner, Chairman	John E. Woodzell
Cindy L. Bryant		Ronald Morrisette

OTHER OFFICIALS

City Manager	John Doane
City Finance Director	Linda A. Brown
City Attorney	Elizabeth K. Dillon
Commissioner of the Revenue	Cathy M. Kimberlin
City Treasurer	Eunice Dressler Wright
Superintendent of Schools	Thomas E. Long
Chief of Police	Joseph B. Broughman

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

THE HONORABLE MEMBERS OF THE CITY COUNCIL CITY OF COVINGTON, VIRGINIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Covington, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the City of Covington, Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Covington, Virginia's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2011, on our consideration of the City of Covington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, the budgetary comparison information and the Schedule of Pension and OPEB Funding Progress as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Virginia's basic financial statements. The introductory section, combining and individual fund financial statements, budgetary comparison schedules and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Covington, Virginia. The combining and individual fund financial statements, the budgetary comparison schedules, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robinson, Finner, Cox Associates

Christiansburg, Virginia

January 12, 2011

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The management of the City of Covington, Virginia presents this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented in this document to be used in conjunction with the financial statements and notes to the financial statements that are included in this document.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components:

1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Components of the Financial Section

The City's basic financial statements consist of two kinds of statements, each with a different view of the City's finances. The government-wide financial statements provide both long and short term information about the City's overall financial status. The fund financial statements focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data. The required supplementary information contains data pertaining to the budget.

Management's Discussion and Analysis
(MD&A)

Basic Financial Statements
Government-Wide Fund Financial
Financial Statements Statements

Notes to the Basic Financial Statements

Required Supplementary Information (RSI)
(Other than MD&A)

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements are now designed to provide readers with a broad overview of the City's finances, on a full accrual basis of accounting, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors will need to be considered, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

The *Statement of Activities* presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets 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 in this statement for some items that will 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 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 government-wide financial statements include the City (known as the *primary government*) as well as funds of the Covington City School Board (known as the *component unit*). Financial information for this component unit is reported separately from the financial information presented for the primary government.

For the purposes of the government-wide statements, the City's financial records are divided into three types of activities:

Government Activities – The governmental activities of the City include General Government Administration, Judicial Administration, Public Safety, Public Works, Health and Welfare, Education, Parks and Recreation, Cultural, and Community Development, which are most of the City's basic services. Property taxes, other local taxes, permits, fees and licenses, fines and forfeitures, revenue from use of money and property, charges for services, miscellaneous, recovered costs, and state and federal revenues finance these activities.

Business-type Activities – The business-type activities of the City include Water and Wastewater (Sewer) Utility Enterprise Activities. Charges and fees to customers finance these activities.

Component Units – The component unit activities of the City include one separate legal entity – Covington City School Board. Although legally separate, this entity is considered a component unit because the City is financially accountable for them and provides operating and capital funding.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

FUND FINANCIAL STATEMENTS

The fund financial statements provide more information about the City's most significant funds. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. The Funds are accounting mechanisms that the City uses to keep track of specific sources of funds and spending for a particular purpose. Some funds are required to be established by State and Federal law and by bond covenants. Other funds are established to control and manage money for particular purposes or to demonstrate that the government is properly using certain taxes and grants.

The City has three types of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or less financial resources that can be spent in the near future to finance the City's programs.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Revenues and expenses generally result from providing services, producing and delivering goods with a proprietary fund principal ongoing operations. The principal revenues of the City enterprise fund are charges to customers for sales and service. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. The expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

In fact, the City's Enterprise Fund (one type of proprietary fund) is the same as its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flow. The City's Enterprise Fund accounts for the operation of the City's Water and Wastewater (Sewer) Utilities.

Fiduciary Funds – The City is the trustee, or fiduciary, for Agency Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government such as the City's employee retirement system and pension funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The City excludes these activities from the City's government-wide financial statements because the City cannot use these assets to finance its own operations.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

OTHER SUPPLEMENTAL INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required statistical information.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

AUDIT STRUCTURE

Reading and interpreting the audit can be a daunting task at times. Hopefully, the following guideline will help first time users of this document.

- I. Introductory Section
 - A. A listing of City Officials

- II. Financial Section
 - A. Management Discussion and Analysis – The document you are currently reading. The purpose of this document is to disclose significant financial information in a more “user friendly” manner.
 - B. Government-wide Statements – The statements required by GASB No. 34. These are the Statement of Net Assets and the Statement of Activities.
 - C. Fund Basis Statements – These are the traditional financial statements included in governmental audits.
 - D. Reconciliation of Fund Basis Statements to Government-wide Statements.
 - E. Proprietary Fund Statements – For the City of Covington, this means the results of the operations of the Water and Wastewater (Sewer) Funds.

- III. Notes to the Financial Statements
 - A. The Notes to the financial statements are perhaps the most informative part of the audit for someone seeking information. The notes include information on accounting policies, detail of reconciliation of government-wide and fund financial statements, stewardship, compliance, and accountability, deposits and investments, amounts due from other government units, interfund transfers, long-term debt (City and component units), capital leases, employee retirement system and pension plans, capital assets, risk management, contingent liabilities, surety bonds, landfill closure and post-closure care cost, designated and reserved net assets. The notes explain how certain figures are obtained.

- IV. Required Budgetary Information
 - A. Combining & Individual Fund Statements and Schedules – These statements and schedules are where the detail is kept that rolls forward into the Basic Financial Statements.

- V. Other Supplementary Information
 - A. Statistical Sections – Where comparative charts are presented showing the increases and decreases of revenue, expenditures, debt, property assessed values and tax rates over a ten year period.
 - B. Schedule of Joint Costs – This is a required part of the audit per the General Joint Operations agreement with the County of Alleghany. It basically takes all expenditures subtracts all revenues and distributes the balance of shared costs based on population.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

VI. Compliance

- A. Compliance – Required under OMB Circular A-133, it basically reports all money received from the Federal Government including State pass through funds and a judgment is passed on whether the City has materially met the requirements of each major grant.

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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the first year that the City of Covington has presented its financial statements showing a comparative analysis of the government-wide statements in the Management Discussion Analysis Report under the new reporting model required by GASB Statement No. 34. This reporting model changes significantly both the recording and presentation of financial data.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets for the year ended June 30, 2010.

**Table 1
Summary of Net Assets
As of June 30, 2010 (Exhibit 1 of the Audit)**

	Governmental Activities		Business-Type Activities		Total Primary Gov't		Component Unit (School Board)	
	2010	2009	2010	2009	2010	2009	2010	2009
Assets								
Current and other assets	\$9,913,387	\$8,878,713	\$2,215,377	\$1,992,596	\$12,228,764	\$10,871,309	\$1,428,969	\$1,468,680
Capital Assets	31,518,680	32,076,048	7,339,882	7,352,309	38,858,562	39,428,357	960,253	1,363,363
Total Assets	\$41,432,067	\$40,954,761	\$9,655,259	\$9,344,905	\$51,087,326	\$50,299,666	\$2,389,222	\$2,832,043
Liabilities								
Current and other Liabilities	\$3,173,655	\$1,201,113	\$197,368	\$79,171	\$3,371,023	\$1,280,284	\$1,128,625	\$1,206,383
Long-Term Liabilities	35,571,906	36,713,328	1,411,947	2,071,702	36,983,853	38,785,030	540,513	378,634
Total Liabilities	\$38,745,561	\$37,914,441	\$1,609,315	\$2,150,873	\$40,354,876	\$40,065,314	\$1,669,138	\$1,585,017
Net Assets								
Invested in Capital Assets net of debt	\$2,584,988	\$5,398,618	\$6,044,441	\$5,366,731	\$8,629,429	\$10,765,349	\$960,253	\$1,363,363
Restricted net Assets	0	0	0	0	0	0	0	0
Unrestricted net Assets	101,518	<2,358,298>	2,001,503	1,827,301	2,103,021	<530,997>	<240,169>	<116,337>
Total Net Assets	\$2,686,506	\$3,040,320	\$8,045,944	\$7,194,032	\$10,732,450	\$10,234,352	\$720,084	\$1,247,026

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Financial Highlights of the Statement of Net Assets

At the close of the fiscal year ended June 30, 2010, the assets of the City and its component-unit exceeded liabilities by \$11,452,534 and for fiscal year ended June 30, 2009 the assets of the City and its Component Unit exceeded liabilities by \$11,481,378 (Exhibit 1 of the Audit), which represents a decrease in the amount of \$<28,844>. Of this amount for the fiscal year ended June 30, 2010, \$1,862,852 may not be used to meet the government's ongoing obligations to creditors and citizens within each respective activity. For example, the \$<240,169> unrestricted net assets in the Component Unit (School Board) cannot be used to support Governmental Activities or Business-type Activities.

*Net assets of the City's Governmental Activities for the government-wide statement for the fiscal year ended June 30, 2010 were \$2,686,506 and for the fiscal year ended June 30, 2009 were \$3,040,320 (Exhibit 1 of the Audit), which represents a decrease in the amount of \$<353,814> in net assets. These amounts are unrestricted.

*Net assets of the City's Business-Type Activities for the fiscal year ended June 30, 2010 were \$8,045,944 and for the fiscal year ended June 30, 2009 were \$7,194,032 (Exhibit 1 of the Audit), which represents an increase in the amount of \$851,912. These amounts are unrestricted.

*Net assets of the Component Unit (School Board) for the fiscal year ended June 30, 2010 were \$720,084 and for the fiscal year ended June 30, 2009 were \$1,247,026 (Exhibit 1 of the Audit), which represents a decrease in the amount of \$<526,942>. Due to legislative restrictions, the School Operating Fund must have a zero balance at the end of the fiscal year. Therefore, only special funds (School Textbook, Grants, and Governor's School) are allowed to carry monies into the following year.

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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Summary of Activities

The following table shows the revenue and expenses of the governmental and business type activities and component unit (School Board) for the fiscal year ended June 30, 2010.

Table 2 (Exhibit 2 of the Audit) Statement of Activities as of June 30, 2010

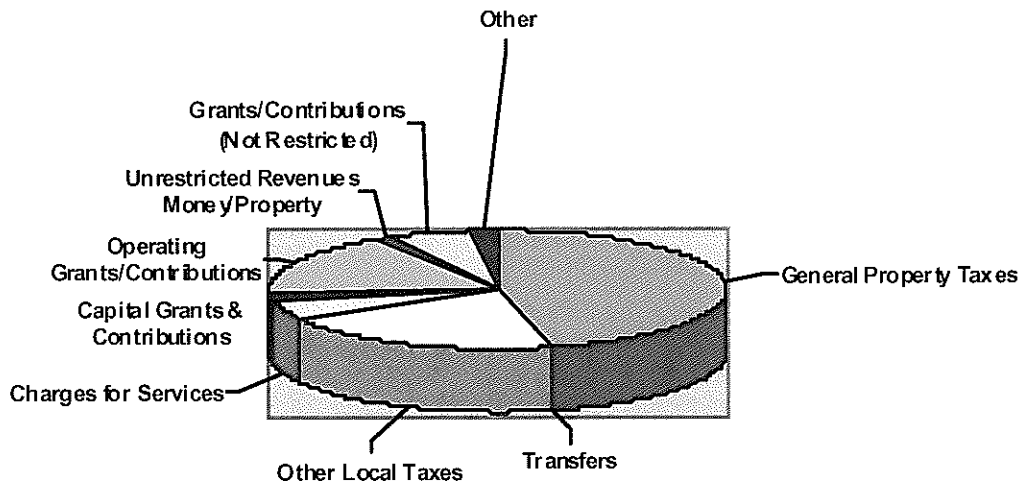
	Governmental Activities		Business-Type Activities		Total Primary Government		Comp Unit (School Board)	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenues								
Program Revenues:								
Charges for Services	\$874,329	\$1,058,306	\$3,291,559	\$2,947,773	\$4,165,888	\$4,006,079	\$115,717	\$116,305
Operating Grants/ Cont	2,618,316	2,671,980	0	0	2,618,316	2,671,980	6,267,411	6,263,729
Capital Grants and Cont	34,430	0	41,364	4,900	75,794	4,900	0	0
General Revenues:								
General Property Taxes	7,051,615	6,937,869	0	0	7,051,615	6,937,869	0	0
Other Local Taxes	3,170,222	3,396,974	0	0	3,170,222	3,396,974	0	0
Other (loss capital assets/transfers)	291,309	423,778	<291,309>	<284,778>	0	139,000	0	<139,000>
Unrestricted revenues money/property	66,549	237,828	0	0	66,549	237,828	1,380	2,376
Payments from City of Covington	0	0	0	0	0	0	3,550,325	4,091,588
Miscellaneous Grants/Contributions (Not Restricted)	55,222	91,613	131,445	3,038	186,667	94,651	156,524	86,545
	896,005	850,521	0	0	896,005	850,521	0	0
Total Revenues	\$15,057,997	\$15,668,869	\$3,173,059	\$2,670,933	\$18,231,056	\$18,339,802	\$10,091,357	\$10,421,543
Expenses:								
General Gov't Admin	\$1,483,169	\$1,471,203	\$0	\$0	\$1,483,169	\$1,471,203	\$0	\$0
Judicial Administration	122,901	61,292	0	0	122,901	61,292	0	0
Public Safety	2,819,474	2,979,472	0	0	2,819,474	2,979,472	0	0
Public Works	1,913,115	3,802,359	2,321,147	2,247,991	6,147,347	6,050,350	0	0
Health and Welfare	1,700,110	1,494,392	0	0	0	1,494,392	0	0
Education	3,825,555	4,690,266	0	0	0	4,690,266	10,579,917	10,543,914
Parks, Recreation & Cultural	1,320,420	1,195,610	0	0	0	1,195,610	0	0
Community Development	99,201	110,214	0	0	0	110,214	0	0
Interest on Long-Term Debt	1,256,643	864,835	0	0	0	864,835	0	0
	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
Total Expenditures	\$14,540,588	\$16,669,643	\$2,321,147	\$2,247,991	\$16,861,735	\$18,917,634	\$10,579,917	\$10,543,914
Change in Net Assets	\$517,409	\$<1,000,774>	\$851,912	\$422,942	\$1,369,321	\$<577,832>	\$<488,560>	\$<122,371>
Transfers	291,309	0	<291,309>	0	0	0	0	0
Beginning Net Assets	\$2,169,097	\$4,041,094	\$7,194,032	\$6,771,090	\$9,363,129	\$10,812,184	\$1,208,644	\$1,369,397
Ending Net Assets	\$2,686,506	\$3,043,320	\$8,045,944	\$7,194,032	\$10,732,450	\$10,234,352	\$720,084	\$1,247,026

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Governmental Activities

The City's total revenues from governmental activities were \$15,057,997 fiscal year ended June 30, 2010. The City's largest source of general revenue is property taxes, composed of real estate and personal property taxes, in the amount of \$7,051,615. The next largest source of general revenue is other local taxes, composed of local sales taxes, consumer's utility taxes, business license taxes, consumption taxes, franchise license taxes, motor vehicle licenses, lodging and meals taxes, and recordation taxes. See the chart below.

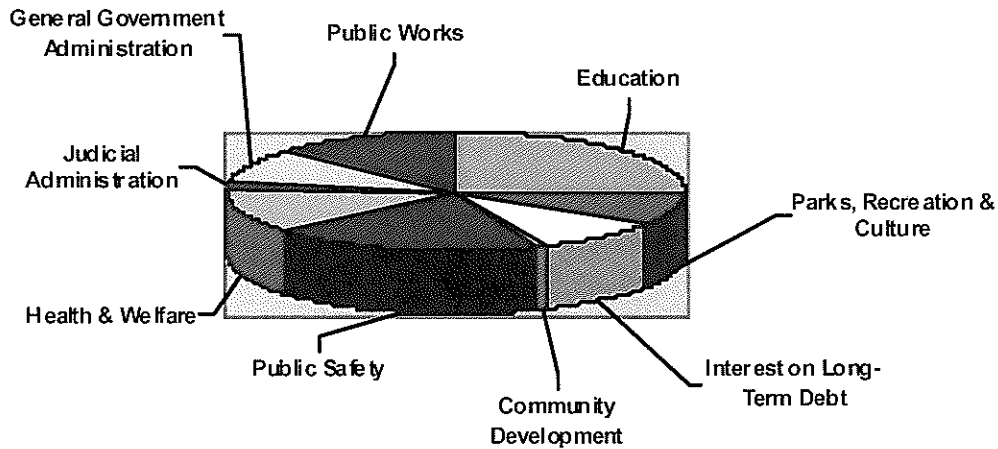
**Sources of Revenue for Fiscal Year 2010
Governmental Activities**



The City's total expenses for governmental activities were \$14,540,588 for the fiscal year ended June 30, 2010. The City's largest area of expense is education in the amount of \$3,825,555. Education continues to be one of the City's highest priorities and commitments as evidenced by the City's contribution. The next two largest areas of expenses are Public Safety in the amount of \$2,819,474 and Public Works in the amount of \$1,913,115. These two areas provide services and protection to the citizens of The City of Covington. Police protection and fire and rescue services continue to be of the highest priorities and commitments as evidenced by the City's contributions. Net asset in the governmental activities increased \$517,409. See the chart on the following page.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

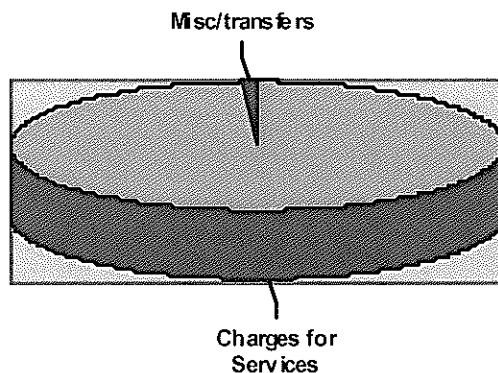
**Expenditures by Category for Fiscal Year
2010**



Business-Type Activities

The City's total revenue from business-type activities was \$3,173,059 for the fiscal year ended June 30, 2010. The City's largest source of revenue is charges for services in the amount of \$3,291,559. There were also capital grants/contributions and transfers for \$<118,500>. See chart below.

**Sources of Revenue for Fiscal
Year 2010**

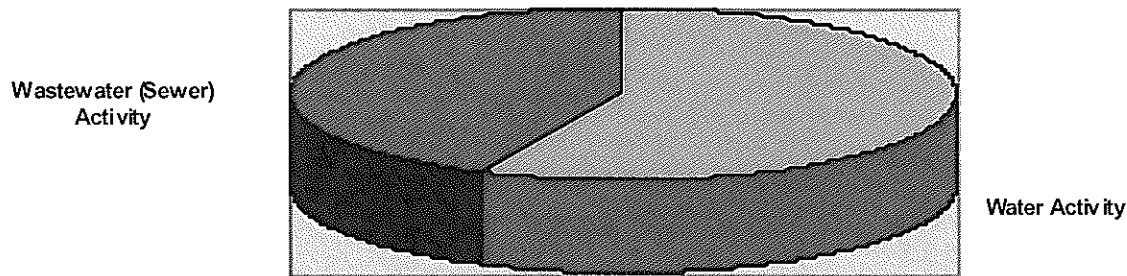


**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The City's total expenses for business-type activities were \$2,321,147. The largest area of expense is the Water Filtration Plant and Water Distribution in the amount of \$1,322,656. The next area of expense is the Sewer Plant and Sewer Distribution in the amount of \$998,491. Net assets in the business-type activities increased \$851,912. See chart below.

**Expenditures by Category for Fiscal
Year 2010**

Business-Type Activities

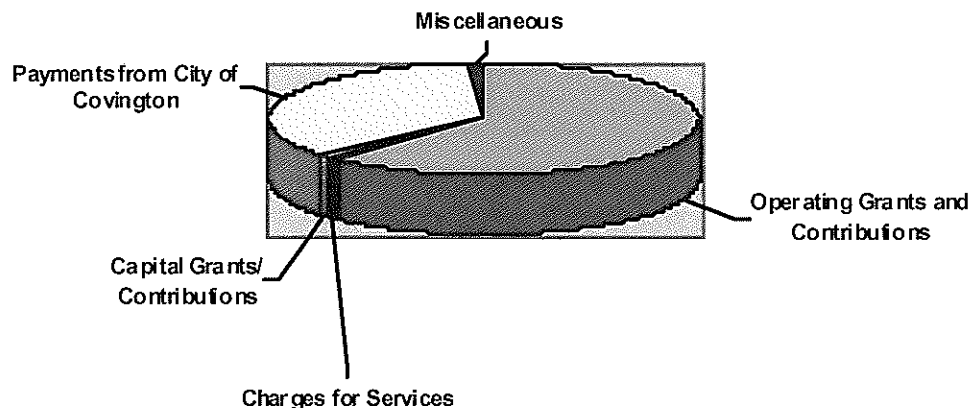


Component Unit (School Board)

The City's total revenue from component unit (School Board) activities was \$10,091,357 for the fiscal year ended June 30, 2010. The City's largest source of revenue is operating grants and contributions in the amount of \$6,267,411. See chart below.

**Sources of Revenue for Fiscal Year
2010**

Component Unit (School Board)

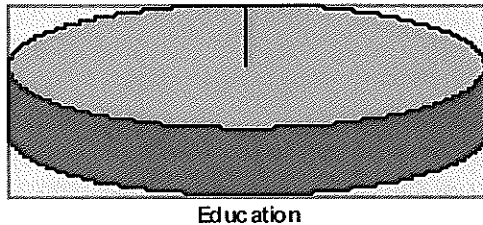


**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The City's total expenses for component unit (School Board) were \$10,579,917. Net assets in the component unit (School Board) decreased by \$488,560. See chart below.

**Expenditures by Category for Fiscal Year
2010**

Component Unit (School Board)



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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Highlights of the Statement of Activities

The Statement of Activities reveals some interesting facts. Probably the most thought provoking is the original schedule that matches revenues and expenditures for a specific activity (Exhibit 2 of the Audit). It shows the specific activity versus how much revenue is generated specifically for or by that activity and how much of the general revenues are used to finance the activity. This is diametrically opposite of how traditional fund accounting has presented revenue. Fund accounting has always presented revenue by source (local, state, and federal). The following table presents the program revenue generated by each major activity and the general revenue required to meet operational cost of the respective activities. See Table 3 and charts following.

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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

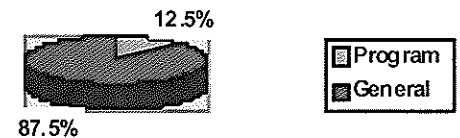
Table 3 Activities – Program Revenues vs. Reliance on General Revenues to Fund Expenditures as of June 30, 2010 (Exhibit 2 of the Audit)

Activities	Program Revenues		Reliance on General Revenues		Total Revenues	
	2010	2009	2010	2009	2010	2009
Governmental Activities:						
General Administration	\$185,741	\$201,278	\$1,297,428	\$1,269,925	\$1,483,169	\$1,471,203
Judicial Administration	0	95,200	122,901	<33,908>	122,901	61,292
Public Safety	655,384	1,454,682	2,164,090	1,524,790	2,819,474	2,979,472
Public Works	1,518,144	676,943	394,971	3,125,416	1,913,115	3,802,359
Health & Welfare	1,063,351	977,434	636,759	516,958	1,700,110	1,494,392
Education	0	227,003	3,825,555	4,463,263	3,825,555	4,690,266
Parks, Recreation & Cultural	68,961	68,746	1,251,459	1,126,864	1,320,420	1,195,610
Community Development	35,494	29,000	63,707	81,214	99,201	110,214
Interest on Long-Term Debt	0	0	1,256,643	864,835	1,256,643	864,835
Total Governmental Activities	\$3,527,075	\$3,730,286	\$11,013,513	\$12,939,357	\$14,540,588	\$16,669,643
Business-Type Activities						
Water	\$1,682,908	\$1,472,358	\$<360,252>	\$<228,809>	\$1,322,656	\$1,243,549
Wastewater (Sewer)	1,650,015	1,480,315	<651,524>	<475,873>	998,491	1,004,442
Total Business-Type Activities	\$3,332,923	\$2,952,673	\$<1,011,776>	\$<704,682>	\$2,321,147	\$2,247,991
Total Primary Government	\$6,859,998	\$6,682,959	\$10,001,737	\$12,234,675	\$16,861,735	\$18,917,634
Component Unit (School Board):						
Education	\$6,383,128	\$6,380,034	\$4,196,789	\$4,163,880	\$10,579,917	\$10,543,914
Total Component Unit	\$6,383,128	\$6,380,034	\$4,196,789	\$4,163,880	\$10,579,917	\$10,543,914
Totals	\$13,243,126	\$13,062,993	\$14,198,526	\$16,398,555	\$27,441,652	\$29,461,548
Expenditures:						
Government Activities	Business-Type Activities	Primary Government	Component Unit	Total		
\$14,540,588	\$2,321,147	\$16,861,735	\$10,579,917	\$27,441,652		

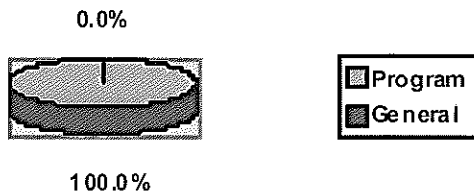
**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

General Government Administration is 12.5% supported by Program Revenues and 87.5% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia for the voting function, tax collection and assessment functions. This category includes general and financial administration, taxing and collection functions, and voting functions.

**GOVT ACTIVITIES BY
REVENUE SOURCE
GENERAL GOVT ADMINISTRATION**



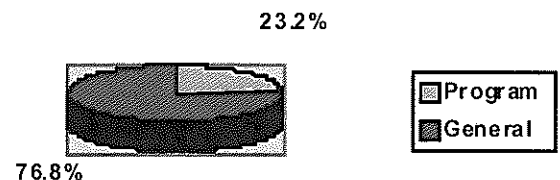
**GOVT ACTIVITIES BY
REVENUE SOURCE
JUDICIAL ADMINISTRATION**



Judicial Administration is 100.0% supported by Program Revenues and 00.0% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia and fines and forfeitures. Activities included in this category are the court system, serving of legal documents, prosecution, magistrate, and maintaining legal records. All of these services are joint operations with the County of Alleghany.

Public Safety is 23.2% supported by Program Revenues and 76.8% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia and from County of Alleghany for Fire and First Aid Protection. This function includes law enforcement, fire and rescue, inspections, animal control, and emergency services. Also, sheriff law enforcement, correction and detention, and probation are joint operations with the County of Alleghany.

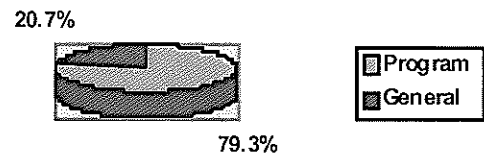
**GOVT ACTIVITIES BY
REVENUE SOURCE
PUBLIC SAFETY**



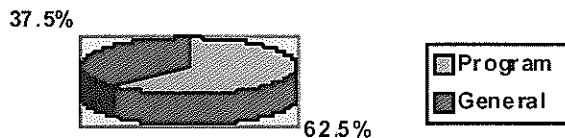
**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Public Works is 79.3% supported by Program Revenues and 20.7% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia and fees from landfill charges and waste collection and disposal charges. This category includes engineering, streets, street lights, snow and ice removal, traffic engineering, street cleaning, refuse collection, refuse disposal, recycling, buildings and grounds, and motor vehicular maintenance.

**GOV'T ACTIVITIES BY
REVENUE SOURCE
PUBLIC WORKS**



**GOV'T ACTIVITIES BY
REVENUE SOURCE
HEALTH AND WELFARE**



Health and Welfare is 62.5% supported by Program Revenues and 37.5% Supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia. This category includes support to local health department, free clinic, community service board, human service transportation system, state and local hospital program, TAP, social services (joint operations with the County of Alleghany, who bills the City of Covington for their share of expenses after netting off revenues received from State & Federal sources), Safehomes, Jackson River Enterprises, Second Harvest Food Bank, and CSA Foster Care Program.

**GOV'T ACTIVITIES BY
REVENUE SOURCE
EDUCATION**

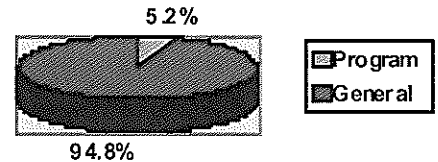
Education is 0.0% supported by Program Revenues and 100.0 % supported by General Revenues. On the Statement of Activities (Exhibit 2 of the Audit) local education is separated from the School Board activities. This chart represents local funds and operating grants and contributions used to support City of Covington Schools.



**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Parks, Recreation, and Cultural Activities are 5.2% supported by Program Revenues and 94.8% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia for support of the Alleghany Highlands Arts & Crafts Center and Alleghany Highlands Arts Council. This category includes parks and recreation, senior citizens center, cemetery, League of Older Americans, Alleghany Highlands Arts Council, Alleghany Highlands Arts & Crafts Center, Virginia Museum of Transportation, and Regional Library.

**GOV'T ACTIVITIES BY
REVENUE SOURCE
PARKS, RECREATION &
CULTURAL**



**GOV'T ACTIVITIES BY
REVENUE SOURCE
COMMUNITY DEVELOPMENT**



Community Development is 35.8% supported by Program Revenues and 64.2% supported by General Revenues. Program Revenue is mostly received by capital grants. This category includes planning commission, redevelopment/housing authority, zoning board, economic development, employment/training consortium, DSL Community College, Mountain Soil/Water Conservation District, and Virginia Cooperative Services.

Interest on long-term debt is 100.0% supported by General Revenues. This category includes interest on both school debt and general obligation debt.

**GOV'T ACTIVITIES BY
REVENUE SOURCE
INTEREST ON LONG-TERM DEBT**



**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Water Activity is 100.0% supported by Program Revenues. Program Revenue is derived from charges and fees to customers. This category includes water filtration plant and water distribution.

**BUSINESS-TYPE ACTIVITIES BY
REVENUE SOURCE
WATER ACTIVITY**



**BUSINESS-TYPE ACTIVITIES BY
REVENUE SOURCE
WASTEWATER (SEWER) ACTIVITY**

Wastewater (Sewer) Activity is 100.0% supported by Program Revenues. Program Revenue is derived from charges and fees to customers. This category includes sewage disposal plant and sewage collection and removal.



Component Unit (School Board) is 60.3% supported by Program Revenues and 39.7% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia, federal programs, and grants.

**COMPONENT UNIT ACTIVITIES
BY REVENUE SOURCE
EDUCATION**



The Statement of Activities (Exhibit 2 of the Audit) also demonstrates very clearly how the difference between expenditures and revenue leads to either an increase or decrease in net assets between years.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City of Covington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide more detailed information about the City's most significant funds. This will be a more familiar view to traditional users of government financial statements; however, there are still significant changes in these statements to meet the requirements of GASB No. 34. Except for major funds as defined by GASB No. 34, all other special funds have been rolled into the general fund.

Government Funds

The focus 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's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available at the end of a fiscal year. The governmental funds include the general fund and other governmental funds, which is comprised of the special revenue funds and capital project funds.

The General Fund is the chief operating fund of the City. The fund balance at the end of FY 2010 was in the amount of \$2,859,119 and at the end of FY 2009 was in the amount of \$2,899,689, which represents a decrease in the amount of \$40,570. Property taxes generated the majority of General Fund Revenues, which totaled \$7,058,693 in FY 2010 and totaled \$6,915,610 in FY 2009, which represents an increase of \$143,083. At the end of FY 2010, total revenues in the General Fund were \$14,929,058 and at the end of FY 2009 were \$14,958,679, which represents a decrease of \$29,621. At the end of FY 2010 total expenditures in the General Fund were \$15,017,662 and at the end of FY 2009 were \$15,122,138, which represents a decrease of \$104,476. This resulted at the end of FY 2010 excess expenditures over revenues in the amount of \$88,604 and at the end of FY 2009 excess expenditures over revenue in the amount of \$163,459. At the end of FY 2010 excess expenditures over revenues plus other financing sources resulted in a net change in fund balance in the amount of \$370,774 and at the end of FY 2009 excess revenue over expenditures plus other financing sources resulted in a net change in fund balance in the amount of \$121,319. At the end of FY 2010, this amount \$40,570 plus the beginning fund balance in the amount of \$2,899,689 resulted in an ending fund balance in the amount of \$2,859,119 and at the end of FY 2009, this amount \$121,319 plus the beginning fund balance in the amount of \$2,788,370 resulted in an ending fund balance in the amount of \$2,899,689. See the charts on the following page.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

SUMMARY OF FUND FINANCIAL STATEMENTS

Changes in Fund Balances

Condensed Information – Governmental Funds

(Exhibit 5 of the Audit)

	General 2010	General 2009
Total Revenues	\$14,929,058	\$14,958,679
Total Expenditures	15,017,662	15,122,138
Excess (deficiency) of Revenues over (under) Expenditures	\$<88,604>	\$<163,459>
Other Financing Sources	\$48,034	\$284,778
Net Change in Fund Balance	\$<40,570>	\$121,319
Fund Balance – Beginning	2,899,689	2,778,370
Fund Balance – Ending	\$2,859,119	\$2,899,689

Reconciliation of Governmental Funds to Statement of Net Assets

(Exhibit 4 of the Audit)

	2010	2009
Total Fund Balances per Exhibit 3 – Governmental Funds	\$6,308,959	\$7,274,820
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	31,518,680	32,076,048
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds	285,164	916,816
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	<35,426,297>	<37,227,364>
Net Assets of governmental activities	\$2,686,506	\$3,040,320

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Proprietary Fund

Proprietary funds are classified as either enterprise or internal service funds. The City's proprietary funds are comprised of water and sewer operations. The City accounts for water and sewer operations are classified as enterprise funds. The City proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Water Fund

The Water Fund at the end of FY 2010 had net operating revenues in the amount of \$1,687,471 total operating expenses in the amount of \$<1,295,279> and non-operating revenues expenses and transfers out in the amount of \$<23,748>, which resulted in a change of net assets in the amount of \$368,444. The Water Fund at the end of FY 2009 had operating revenues in the amount of \$1,473,296, total operating expenses in the amount of \$<1,207,238>, and non-operating revenues expenses and transfers out the amount of \$<149,347>, which resulted in a change of net assets in the amount of \$116,711.

Sewer Fund

The Sewer Fund at the end of FY 2010 had operating revenues in the amount of \$1,610,751, total operating expenses in the amount of \$<957,076>, and non-operating revenues expenses and transfers out the amount of \$<170,207>, which resulted in a change of net assets in the amount of \$483,468. The Sewer Fund at the end of FY 2009 had operating revenues in the amount of \$1,477,515, total operating expenses in the amount of \$<949,646>, and non-operating revenues expenses and transfers in/out in the amount of \$<221,638>, which resulted in a change of net assets in the amount of \$306,231.

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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

GENERAL FUND BUDGETARY HIGHLIGHTS

**Condensed Information
(Exhibit 10 of the Audit)**

	Original Budget	Amended Budget	Actual
Revenues:			
Taxes	10,841,514	10,841,514	10,228,915
Intergovernmental	4,234,594	4,306,945	3,548,751
Other	1,340,607	1,972,905	1,151,392
Bond/Capital Leases Proceeds, etc.	0	0	0
Transfers	302,718	302,718	291,309
Total Revenues/Other Financing Sources	16,719,433	17,424,082	15,220,367
Expenditures and Transfers:			
Expenditures	16,928,051	18,103,668	15,017,662
Transfers	159,000	40,211	243,275
Total Expenditures and Transfers	17,087,051	18,143,879	15,260,937
Change in Fund Balance	<367,618>	<719,797>	<40,570>

During the fiscal year 2010, City Council amended the budget. These budget amendments or supplemental appropriation ordinances were primarily for the following purposes:

- Appropriation for additional grant funds received (OEMS Consolidated Grants, Seizure/Forfeiture Grant, Alleghany Foundation Grant, DMV Safety Grant, and Bryne Justice Assistance Grant)
- Appropriation for additional funding for Building & Grounds and Parks & Recreation for electric and heating services
- Appropriation for additional funding Electoral Board for additional salaries
- Appropriation for additional funding City Council for contributions to Civic/Community Organizations
- Appropriation for additional funding for Animal Control
- Appropriation for Consolidation Expenses

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

• CAPITAL ASSETS AND LONG TERM DEBT

The City of Covington had an investment in capital assets (net of accumulated depreciation) as of June 30, 2010 for the Governmental Activities in the amount of \$31,518,680 and as of June 30, 2009 in the amount of \$32,076,048, which represents a decrease in the amount of \$<557,368>. The City of Covington had an investment in the capital assets (net of accumulated depreciation as of June 30, 2010 for Business-Type Activities (Water and Wastewater (Sewer) in the amount of \$7,339,882 and as of June 30, 2009 in the amount of \$7,352,310, which represents a decrease in the amount of \$<12,428>. The City of Covington had an investment in capital assets (net of accumulated depreciation) as of June 30, 2010 for the Component Unit (School Board) in the amount of \$960,253 and as of June 30, 2009 in the amount of \$1,366,317, which represents a decrease in the amount of \$<403,110>, for which the City of Covington does not have a financial debt obligation. All debt associated with these assets have been paid.

The governmental activities long-term debt (See Note 7) has a balance of \$35,571,906 as of June 30, 2010. This amount is \$1,209,734 less than the balance on July 1, 2009. This \$1,209,734 decrease was due to the following factors: (1) Issuance of Deferred Amount on Refunding Literary in the amount of \$<126,850>. (2) Issuance of Bond Anticipation Note in the amount of \$15,000,000. (3) Issuance of premium on Bond in the amount of \$455,119. (4) Issuance of Net OPEB Obligation in the amount of \$68,916. (5) Retirement of General Obligation Bonds in the amount of \$<305,908>. (6) Retirement of Deferred Amount on Refunding in the amount of \$89,646. (7) Retirement of Literary Loans in the amount of \$<72,500 >. (8) Retirement of Bond Anticipation Note in the amount of \$<15,000,000>. (9) Premium on Bond in the amount of \$<50,771>. (10) Retirement of Lease Revenue Bond in the amount of \$<50,000>. (10) Retirement of Discount on Bond in the amount of \$5,848. (11) Retirement of Capital Leases in the amount of \$<141,295>. (12) Retirement of Landfill Closure/Post Closure Liability in the amount of \$<1,040,361>. (13) Retirement of Compensated Absences in the amount of \$<41,578>.

The business-type activities-Water and Wastewater (Sewer) long-term debt has a balance of \$1,411,947 as of June 30, 2010 (See Note 7). This amount is \$<659,755> less than the balance on July 1, 2009. This \$<659,755> decrease was due to the following factors: (1) Issuance of net OPEB Obligation in the amount of \$38,584. (2) Retirement of Revenue Bonds-Water and Wastewater (Sewer) in the amount of \$<698,968>. (3) Retirement of deferred amount on refunding in the amount of \$8,831. (4) Retirement of Compensated Absences in the amount of \$<8,202>.

The component unit activities (School Board) long-term debt has a balance of \$540,513 as of June 30, 2010 (See Note 9). This amount is \$80,879 less than the balance on July 1, 2009. This \$80,879 increase was due to the following factor: (1) Issuance of Compensated Absences in the amount of \$10,179. (2) Issuance of Net OPEB Obligations in the amount of \$70,700.

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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The City maintains the following ratings on its Bonding Programs:

BONDING PROGRAM	STANDARD AND POOR	MOODY'S
General Obligation Series 1998 Regional Jail, Landfill, City Hall General Obligation Series 2005 Regional Jail and City Hall (non-rated) Bank Loan	"AAA"	"Aaa"
General Obligation Series 1994A School Bond	"A"	
General Obligation Series 2004A Water and Sewer (non-rated)Bank Loan		

A summary of capital assets and long-term debt follows:

Capital Assets (Net of Accumulated Depreciation)						
	Governmental		Business-Type		Component Unit (School Board)	
	2010	2009	2010	2009	2010	2009
Non-Depreciable Assets:						
Land	\$1,654,067	\$1,292,606	0	0	\$89,663	\$451,124
Construction in Progress	37,465	0	267,962	0		0
Other Capital Assets:						
Building and Systems	32,196,391	31,673,504	0	0	1,012,803	1,937,558
Infrastructure	481,901					
Water and Wastewater (Sewer Plant) Systems	0	0	15,608,587	15,573,402	0	0
Machinery and Equipment	6,562,364	6,645,838	0	0	835,563	820,536
Accumulated Depreciation	<9,413,508>	<7,535,900>	<8,536,667>	<8,221,092>	<977,776>	<1,845,855>
Totals	\$31,518,680	\$32,076,048	\$7,339,882	\$7,352,310	\$960,253	\$1,363,363

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

Governmental Activities Debt								
	Balance July 1		Issuances		Retirements		Balance June 30	
	2009	2008	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$3,887,647	\$4,327,392	\$0	\$0	\$<305,908>	\$<439,745>	\$3,581,739	\$3,887,647
Deferred Amt on refunding	<83,277>	<95,335>	<126,850>	0	89,646	4,175	<120,481>	<91,160>
Literary Loans	217,500	290,000	0	0	<72,500>	<72,500>	145,000	217,500
Promissory Note	0	0	0	0	0	0	0	0
Bond Anticipation Note	15,000,000	15,000,000	15,000,000	0	<15,000,000>	0	15,000,000	15,000,000
Premium on Bond	50,771	86,250	455,119	0	<50,771>	<11,376>	455,119	74,874
Lease Revenue Bond	11,490,000	11,490,000	0	0	<50,000>	0	11,440,000	11,490,000
Discount on Bond	<262,446>	<274,460>	0	0	5,848	36,382	<256,598>	<238,078>
Capital Leases (Note 8)	614,435	771,031	0	0	<141,295>	<156,596>	473,140	614,435
Landfill closure/postclosure Liability	5,354,422	4,665,292	0	689,130	<1,040,361>	0	4,314,061	5,354,422
Compensated Absences	403,688	402,697	0	991	<41,578>	0	362,110	403,688
Net opeb obligation	108,900	0	68,916	0	0	0	177,816	0
Total	\$36,781,640	\$36,662,867	\$15,397,185	\$690,121	\$<16,606,919>	\$<639,660>	\$35,571,906	\$36,713,328

Business-Type Activities Debt – Water and Wastewater (Sewer)										
	Balance July 1		Adj.		Issuances		Retirements		Balance June 30	
	2009	2008			2010	2009	2010	2009	2010	2009
Revenue Bonds	\$2,029,728	\$2,704,852	\$ 0	\$ 0	\$0	\$0	\$<698,968>	\$<675,124>	\$1,330,760	\$2,029,728
Deferred amt on Refunding	<44,150>	<52,980>	0	0	0	0	8,831	8,830	<35,319>	<44,150>
Net opeb obligation	0	0	0	0	38,584	0	0	0	38,584	0
Compensated Absences	86,124	48,778	0	0	0	37,346	<8,202>	0	77,922	86,124
Total	\$2,071,702	\$2,700,650	0	0	\$38,584	\$37,346	\$<698,339>	\$<666,294>	\$1,411,947	\$2,071,702

Component Unit Activities (School Board)										
	Balance July 1		Adjustments		Issuances		Retirements		Balance June 30	
	2009	2008	2010	2009	2010	2009	2010	2009	2010	2009
Compensated Absences	378,634	412,487	0	0	10,179	0	0	<33,853>	388,813	378,634
Net opeb obligation	81,000				70,700	0	0	0	151,700	0
Total	\$459,634	\$412,487	\$0	\$0	\$80,879	\$0	\$0	\$<33,853>	\$540,513	\$378,634

*All debt used to finance School Capital Assets has been assumed by the Governmental Activities.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

All of the following factors were considered in preparing the City of Covington's budget for FY 10-11:

- The unemployment rate for the City of Covington in June 2010 was 10.4%.
- The development of the FY 2011 budget was very challenging. The budget is more constrained than usual because of significant decreases in financial support from the State. In an effort to balance the budget with a minimal increase of rates to the taxpayers of the City of Covington, the following changes were instituted in the FY 2010-2011 budget:
 - All funding for City Departments in the FY 2010-2011 budget were funded with a minimal or no increase.
 - Most requests by City Departments for capital improvements, which were included in the five-year capital improvement plan, were delayed until next budget year.
 - Employees were not given a step increase. Every full-time employee was given a \$750 bonus pay. Employees and employers had to pay an additional 6.91% of the health insurance premiums.
 - Three and a half vacant positions were eliminated.
 - Travel was cut for staff to attend only required meetings for certification and education.
 - Most agencies contributions were reduced, level funded, or eliminated.
 - The School Board local contributions from the City was level funded.
 - Reduction of State Aid to Local Governments, resulted in additional budget cuts.
- The following rates were increased in the FY 2010-2011 Budget in order to balance the budget:
 - Meals Tax was increased from 6.5% to 7.5%.
 - Landfill rates were increased by \$20 a ton.
 - Cigarettes Tax was increased from \$.20 cent per pack to \$.30 cent per pack.
 - Building/Electrical/Plumbing Permit Fees were increased.
 - Bad Check Fees were increased from \$15.00 to \$25.00.
 - Garbage Collection Fees were increased from \$10.00 a month to \$14.00 a month.

All of the above cuts, increased revenues, and economic factors have resulted in a decrease of \$200,555 of funding in the General Fund FY 2010-2011 Budget.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: The City of Covington, Central Accounting Office, 333 West Locust Street, Covington, VA 24426.

BASIC FINANCIAL STATEMENTS

City of Covington, Virginia
Statement of Net Assets
June 30, 2010

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	<u>Activities</u>	<u>Activities</u>		<u>School Board</u>
ASSETS				
Cash and cash equivalents	\$ 3,338,721	\$ 1,810,362	\$ 5,149,083	\$ 1,028,163
Cash in custody of others	-	-	-	99,192
Investments	44,406	-	44,406	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,823,803	-	2,823,803	-
Other local taxes receivable	117,955	-	117,955	-
Accounts receivable	78,451	420,510	498,961	2,713
Due from component unit	352,133	-	352,133	-
Due from other governmental units	793,310	38,564	831,874	173,509
Inventories	-	-	-	6,077
Prepaid expenses	-	-	-	119,315
Restricted assets:				
Temporarily restricted:				
Investments (in custody of others)	1,783,227	-	1,783,227	-
Other assets:				
Unamortized bond issue costs	581,381	45,941	627,322	-
Capital assets (net of accumulated depreciation):				
Land	1,654,067	-	1,654,067	89,663
Buildings	27,265,875	-	27,265,875	619,401
Machinery and equipment	2,336,851	-	2,336,851	251,189
Infrastructure	224,422	7,071,920	7,296,342	-
Construction in progress	37,465	267,962	305,427	-
Total assets	\$ 41,432,067	\$ 9,655,259	\$ 51,087,326	\$ 2,389,222
LIABILITIES				
Accounts payable	\$ 105,865	\$ 107,716	\$ 213,581	\$ -
Accrued liabilities	101,930	22,488	124,418	776,492
Retainage payable	-	4,059	4,059	-
Customers' deposits	-	52,393	52,393	-
Accrued interest payable	435,772	10,712	446,484	-
Due to primary government	-	-	-	352,133
Unearned revenue	2,520,130	-	2,520,130	-
Deposits held in escrow	9,958	-	9,958	-
Long-term liabilities:				
Due within one year	724,718	307,284	1,032,002	-
Due in more than one year	34,847,188	1,104,663	35,951,851	540,513
Total liabilities	\$ 38,745,561	\$ 1,609,315	\$ 40,354,876	\$ 1,669,138
NET ASSETS				
Invested in capital assets, net of related debt	\$ 2,584,988	\$ 6,044,441	\$ 8,629,429	\$ 960,253
Unrestricted (deficit)	101,518	2,001,503	2,103,021	(240,169)
Total net assets	\$ 2,686,506	\$ 8,045,944	\$ 10,732,450	\$ 720,084

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, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government Business-type Activities	Total	Component Unit School Board
			Grants and Contributions	Capital Contributions				
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 1,483,169	\$ 2,375	\$ 183,366	\$ -	\$ (1,297,428)	\$ -	\$ (1,297,428)	\$ -
Judicial administration	122,901	-	-	-	(122,901)	-	(122,901)	-
Public safety	2,819,474	142,167	513,217	-	(2,164,090)	-	(2,164,090)	-
Public works	1,913,115	659,762	858,382	-	(394,971)	-	(394,971)	-
Health and welfare	1,700,110	-	1,053,351	-	(636,759)	-	(636,759)	-
Education	3,825,555	-	-	-	(3,825,555)	-	(3,825,555)	-
Parks, recreation, and cultural	1,320,420	68,961	-	-	(1,251,459)	-	(1,251,459)	-
Community development	99,201	1,064	-	34,430	(63,707)	-	(63,707)	-
Interest on long-term debt	1,256,643	-	-	-	(1,256,643)	-	(1,256,643)	-
Total governmental activities	\$ 14,540,588	\$ 874,329	\$ 2,618,316	\$ 34,430	\$ (11,013,513)	\$ -	\$ (11,013,513)	\$ -
Business-type activities:								
Water	\$ 1,322,655	\$ 1,680,808	\$ -	\$ 2,100	\$ -	\$ 360,252	\$ 360,252	\$ -
Sewer	988,491	1,610,751	-	39,264	-	651,524	651,524	-
Total business-type activities	\$ 2,321,147	\$ 3,291,559	\$ -	\$ 41,364	\$ -	\$ 1,011,776	\$ 1,011,776	\$ -
Total primary government	\$ 16,861,735	\$ 4,165,888	\$ 2,618,316	\$ 75,794	\$ (11,013,513)	\$ 1,011,776	\$ (10,001,737)	\$ -
COMPONENT UNIT:								
School Board	\$ 10,579,917	\$ 115,717	\$ 6,267,411	\$ -	\$ -	\$ -	\$ -	\$ (4,196,789)
General revenues:								
General property taxes			\$ 7,051,615	\$ -	\$ -	\$ -	\$ 7,051,615	\$ -
Other local taxes:								
Local sales and use taxes			1,134,788	-	-	-	1,134,788	-
Consumers' utility taxes			418,958	-	-	-	418,958	-
Consumption taxes			25,525	-	-	-	25,525	-
Business license taxes			483,434	-	-	-	483,434	-
Motor vehicle licenses			106,707	-	-	-	106,707	-
Bank stock taxes			148,401	-	-	-	148,401	-
Taxes on wills			21,457	-	-	-	21,457	-
Hotel and motel room taxes			1,331	-	-	-	1,331	-
Restaurant food taxes			753,184	-	-	-	753,184	-
Tobacco taxes			76,437	-	-	-	76,437	-
Unrestricted revenues from use of money and property			66,549	-	-	-	66,549	1,380
Miscellaneous			55,222	-	-	131,445	186,667	156,524
Payments from the City of Covington			896,005	-	-	-	896,005	3,550,325
Grants and contributions not restricted to specific programs			291,309	-	-	(291,309)	-	-
Transfers								
Total general revenues and transfers			\$ 11,530,922	\$ (159,864)	\$ 11,371,058	\$ 3,708,229	\$ 15,079,287	\$ 4,858,853
Change in net assets			\$ 517,409	\$ 851,912	\$ 1,369,321	\$ (488,560)	\$ 1,238,072	\$ 1,238,072
Net assets - beginning, as restated			\$ 2,169,087	\$ 7,194,032	\$ 9,363,129	\$ 1,208,644	\$ 11,770,892	\$ 11,770,892
Net assets - ending			\$ 2,686,506	\$ 8,045,944	\$ 10,732,450	\$ 720,084	\$ 13,184,984	\$ 13,184,984

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

City of Covington, Virginia
Balance Sheet
Governmental Funds
June 30, 2010

	<u>General</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,672,108	\$ 1,665,613	\$ 1,000	\$ 3,338,721
Investments	44,406	-	-	44,406
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,823,803	-	-	2,823,803
Other local taxes receivable	117,955	-	-	117,955
Accounts receivable	78,451	-	-	78,451
Due from component unit	352,133	-	-	352,133
Due from other governmental units	793,310	-	-	793,310
Restricted assets:				
Temporarily restricted:				
Investments	-	-	1,783,227	1,783,227
Total assets	<u>\$ 5,882,166</u>	<u>\$ 1,665,613</u>	<u>\$ 1,784,227</u>	<u>\$ 9,332,006</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 105,865	\$ -	\$ -	\$ 105,865
Accrued liabilities	101,930	-	-	101,930
Deferred revenue	2,805,294	-	-	2,805,294
Deposits held in escrow	9,958	-	-	9,958
Total liabilities	<u>\$ 3,023,047</u>	<u>-</u>	<u>-</u>	<u>3,023,047</u>
Fund balances:				
Reserved for:				
Construction	\$ -	\$ -	\$ 1,784,227	1,784,227
Unreserved:				
Undesignated, reported in:				
General fund	2,824,934	-	-	2,824,934
Designated, reported in:				
General fund	34,185	-	-	34,185
Debt service funds	-	1,665,613	-	1,665,613
Total fund balances	<u>\$ 2,859,119</u>	<u>1,665,613</u>	<u>1,784,227</u>	<u>6,308,959</u>
Total liabilities and fund balances	<u>\$ 5,882,166</u>	<u>\$ 1,665,613</u>	<u>\$ 1,784,227</u>	<u>\$ 9,332,006</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 Assets
June 30, 2010

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 6,308,959
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	31,518,680
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	285,164
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(35,426,297)
Net assets of governmental activities	<u>\$ 2,686,506</u>

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, 2010

	General	School Debt Service Reserve	School Construction	Total
REVENUES				
General property taxes	\$ 7,058,693	\$ -	\$ -	\$ 7,058,693
Other local taxes	3,170,222	-	-	3,170,222
Permits, privilege fees, and regulatory licenses	9,584	-	-	9,584
Fines and forfeitures	33,647	-	-	33,647
Revenue from the use of money and property	50,559	10,945	5,045	66,549
Charges for services	831,098	-	-	831,098
Miscellaneous	55,222	-	-	55,222
Recovered costs	171,282	-	-	171,282
Intergovernmental revenues:				
Covington City School Board	-	301,116	-	301,116
Commonwealth	3,194,559	-	-	3,194,559
Federal	354,192	-	-	354,192
Total revenues	\$ 14,929,058	\$ 312,061	\$ 5,045	\$ 15,246,164
EXPENDITURES				
Current:				
General government administration	\$ 1,334,414	\$ -	\$ -	\$ 1,334,414
Judicial administration	122,901	-	-	122,901
Public safety	2,955,446	-	-	2,955,446
Public works	2,696,909	-	-	2,696,909
Health and welfare	1,724,165	-	-	1,724,165
Education	3,854,441	-	-	3,854,441
Parks, recreation, and cultural	1,484,555	-	-	1,484,555
Community development	99,201	-	-	99,201
Capital projects	-	-	652,859	652,859
Debt service:				
Principal retirement	569,703	-	15,000,000	15,569,703
Interest and other fiscal charges	175,927	-	1,055,532	1,231,459
Bond issuance costs	-	-	232,400	232,400
Total expenditures	\$ 15,017,662	\$ -	\$ 16,940,791	\$ 31,958,453
Excess (deficiency) of revenues over (under) expenditures	\$ (88,604)	\$ 312,061	\$ (16,935,746)	\$ (16,712,289)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 291,309	\$ 1,353,552	\$ -	\$ 1,644,861
Transfers out	(243,275)	-	(1,110,277)	(1,353,552)
Proceeds of bond anticipation notes	-	-	15,000,000	15,000,000
Premium on bond anticipation note	-	-	455,119	455,119
Total other financing sources (uses)	\$ 48,034	\$ 1,353,552	\$ 14,344,842	\$ 15,746,428
Net change in fund balances	\$ (40,570)	\$ 1,665,613	\$ (2,590,904)	\$ (965,861)
Fund balances - beginning	2,899,689	-	4,375,131	7,274,820
Fund balances - ending	\$ 2,859,119	\$ 1,665,613	\$ 1,784,227	\$ 6,308,959

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, 2010

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

Net change in fund balances - total governmental funds	\$ (965,861)
--	--------------

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 the capital outlays exceeded depreciation in the current period.	155,525
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(7,078)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,387,345
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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.	(52,522)
--	----------

Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 517,409</div>
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The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,206,472	\$ 603,890	\$ 1,810,362
Accounts receivable, net of allowance for uncollectibles	274,817	145,693	420,510
Due from other governmental units	-	38,564	38,564
Total current assets	<u>\$ 1,481,289</u>	<u>\$ 788,147</u>	<u>\$ 2,269,436</u>
Noncurrent assets:			
Other assets:			
Unamortized bond issue costs	\$ 17,738	\$ 28,203	\$ 45,941
Capital assets:			
Utility plant in service	\$ 8,089,419	\$ 7,519,168	\$ 15,608,587
Less accumulated depreciation	(4,596,658)	(3,940,009)	(8,536,667)
Construction in progress	-	267,962	267,962
Total capital assets	<u>\$ 3,492,761</u>	<u>\$ 3,847,121</u>	<u>\$ 7,339,882</u>
Total noncurrent assets	<u>\$ 3,510,499</u>	<u>\$ 3,875,324</u>	<u>\$ 7,385,823</u>
Total assets	<u>\$ 4,991,788</u>	<u>\$ 4,663,471</u>	<u>\$ 9,655,259</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,302	\$ 106,414	\$ 107,716
Wages payable	12,041	10,447	22,488
Customers' deposits	26,807	25,586	52,393
Accrued interest payable	4,289	6,423	10,712
Retainage payable	-	4,059	4,059
Bonds payable - current portion	123,040	184,244	307,284
Total current liabilities	<u>\$ 167,479</u>	<u>\$ 337,173</u>	<u>\$ 504,652</u>
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 395,669	\$ 592,488	\$ 988,157
Net OPEB obligation	21,337	17,247	38,584
Compensated absences	53,409	24,513	77,922
Total noncurrent liabilities	<u>\$ 470,415</u>	<u>\$ 634,248</u>	<u>\$ 1,104,663</u>
Total liabilities	<u>\$ 637,894</u>	<u>\$ 971,421</u>	<u>\$ 1,609,315</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,974,052	\$ 3,070,389	\$ 6,044,441
Unrestricted	1,379,842	621,661	2,001,503
Total net assets	<u>\$ 4,353,894</u>	<u>\$ 3,692,050</u>	<u>\$ 8,045,944</u>

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

City of Covington, Virginia
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for services:			
Water revenues	\$ 1,668,314	\$ -	\$ 1,668,314
Sewer revenues	-	1,593,718	1,593,718
Penalties	12,494	17,033	29,527
Miscellaneous	6,663	-	6,663
Total operating revenues	\$ 1,687,471	\$ 1,610,751	\$ 3,298,222
OPERATING EXPENSES			
Salaries and wages	\$ 433,682	\$ 340,036	\$ 773,718
Fringes	209,839	182,380	392,219
Contracted services	78,009	74,347	152,356
Other:			
Electric and heating	119,195	66,629	185,824
Postal and telecommunications	12,572	9,468	22,040
Insurance	24,238	22,515	46,753
Supplies	165,411	60,967	226,378
Travel	1,181	2,325	3,506
Miscellaneous	7,584	6,613	14,197
Purchase of equipment	65,993	12,404	78,397
Lease/rent of equipment	2,196	611	2,807
OPEB expense	21,337	17,247	38,584
Depreciation	154,042	161,534	315,576
Total operating expenses	\$ 1,295,279	\$ 957,076	\$ 2,252,355
Operating income (loss)	\$ 392,192	\$ 653,675	\$ 1,045,867
NONOPERATING REVENUES (EXPENSES)			
Capital grants	\$ -	\$ 38,564	\$ 38,564
Insurance recovery	124,782	-	124,782
Connection fees	2,100	700	2,800
Debt issuance/refunding costs	(7,967)	(12,348)	(20,315)
Interest expense	(19,410)	(29,067)	(48,477)
Total nonoperating revenues (expenses)	\$ 99,505	\$ (2,151)	\$ 97,354
Income before contributions and transfers	\$ 491,697	\$ 651,524	\$ 1,143,221
Transfers out	\$ (123,253)	\$ (168,056)	\$ (291,309)
Change in net assets	\$ 368,444	\$ 483,468	\$ 851,912
Total net assets - beginning, as restated	\$ 3,985,450	\$ 3,208,582	\$ 7,194,032
Total net assets - ending	\$ 4,353,894	\$ 3,692,050	\$ 8,045,944

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, 2010

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,673,260	\$ 1,640,814	\$ 3,314,074
Payments to suppliers	(475,171)	(255,731)	(730,902)
Payments to employees	(650,179)	(521,663)	(1,171,842)
Net cash provided (used) by operating activities	\$ 547,910	\$ 863,420	\$ 1,411,330
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	\$ (123,253)	\$ (168,056)	\$ (291,309)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant	\$ (35,186)	\$ (157,661)	\$ (192,847)
Principal payments on bonds	(279,867)	(419,101)	(698,968)
Insurance recovery	124,782	-	124,782
Interest payments	(21,663)	(32,441)	(54,104)
Connection fees	2,100	700	2,800
Net cash provided (used) by capital and related financing activities	\$ (209,834)	\$ (608,503)	\$ (818,337)
Net increase (decrease) in cash and cash equivalents	\$ 214,823	\$ 86,861	\$ 301,684
Cash and cash equivalents - beginning	991,649	517,029	1,508,678
Cash and cash equivalents - ending	\$ 1,206,472	\$ 603,890	\$ 1,810,362
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 392,192	\$ 653,675	\$ 1,045,867
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	\$ 154,042	\$ 161,534	\$ 315,576
OPEB expense	21,337	17,247	38,584
(Increase) decrease in accounts receivable	(21,192)	27,175	5,983
Increase (decrease) in customer deposits	6,981	2,888	9,869
Increase (decrease) in accounts payable	1,208	148	1,356
Increase (decrease) in wages payable	1,002	1,295	2,297
Increase (decrease) compensated absences	(7,660)	(542)	(8,202)
Total adjustments	\$ 155,718	\$ 209,745	\$ 365,463
Net cash provided (used) by operating activities	\$ 547,910	\$ 863,420	\$ 1,411,330

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF COVINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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. Reporting Entity

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

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

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

The Covington City School Board operates the elementary and secondary public schools in the City. School Board members are appointed by the City. The School Board is fiscally dependent upon the City because the City approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board is presented as a governmental fund type.

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

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

The City participates in the Charles Pinckney Jones Memorial Library. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City's contribution during fiscal year 2010 was \$120,400.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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 assets 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred 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 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 financial resources to be used for the acquisition or construction of major capital facilities of the school board.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

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

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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.

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

2. Receivables and payables

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

D. Assets, liabilities, and net assets or equity (Continued)

3. Property Taxes

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

4. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$97,519 at June 30, 2010 and is comprised solely of property taxes.

5. Use of Estimates

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

6. Capital assets

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

D. Assets, liabilities, and net assets or equity (Continued)

6. Capital assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Structures, lines, and accessories	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 debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

D. Assets, liabilities, and net assets or equity (Continued)

9. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

Note 2—Reconciliation of Government-Wide and Fund Financial Statements:

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of these \$(35,426,297) and \$(540,513) differences for the primary government and discretely presented component unit, respectively, are as follows:

	Primary Government	Component Unit School Board
Debt payable, net of deferred amount on refunding	\$ (30,519,398)	\$ -
Accrued interest payable	(435,772)	-
Landfill accrued closure and post-closure monitoring costs	(4,314,061)	-
Bond issuance costs	581,381	-
Premium on bond anticipation note issuance	(455,119)	-
Discount on lease revenue issuance	256,598	-
OPEB obligation	(177,816)	(151,700)
Compensated absences	(362,110)	(388,813)
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	\$ (35,426,297)	\$ (540,513)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 2—Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "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." The details of these \$155,525 and \$(456,763) differences for the primary government and discretely presented component unit, respectively, are as follows:

	Primary Government	Component Unit School Board
Capital outlays	\$ 1,148,802	\$ -
Net value on disposal of assets	(5,553)	(3,394)
Transfer of assets to Primary Government, net	361,461	(361,461)
Depreciation expenses	<u>(1,349,185)</u>	<u>(91,908)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>155,525</u>	\$ <u>(456,763)</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 2—Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (Continued)

Another element of that reconciliation states "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$(1,387,345) difference in the primary government are as follows:

	Primary Government
Debt Issued or incurred:	
Proceeds from bond anticipation note	\$ (15,000,000)
Bond issuance costs	232,400
Premium on bond anticipation note	(455,119)
Accrued landfill closure/postclosure	1,040,361
Principal repayments:	
General obligation debt	15,355,908
Capital leases	141,295
Literary loans	72,500
	<hr/>
Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>1,387,345</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 2—Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (Continued)

Another element of that reconciliation states, "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." The details of these \$(52,522) and \$(80,879) difference for the primary government and the discretely presented component unit, respectively, are as follows:

	Primary Government	Component Unit School Board
(Increase) decrease in compensated absences	\$ 41,578	\$ (10,179)
(Increase) decrease in net OPEB obligation	(68,916)	(70,700)
Amortization of bond issuance costs	(7,954)	-
Amortization of bond discount	(5,848)	-
Amortization of deferred amount on refundings	(89,646)	-
(Increase) decrease in accrued interest	78,264	-
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ (52,522)	\$ (80,879)

Note 3-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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 3-Stewardship, Compliance, and Accountability: (Continued)

A. Budgetary information (Continued)

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

B. Excess of expenditures over appropriations

There were no excess of expenditures over appropriations in the City's funds.

C. Deficit fund equity

At June 30, 2010, there were no funds with deficit fund equity.

Note 4—Deposits and Investments:

Deposits

All cash of the primary government and its discretely presented component unit is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia (a multiple financial institution collateral pool) or covered by federal depository insurance.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 4—Deposits and Investments: (Continued)Investments

Statutes authorize the City and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2010 and June 30, 2009, the City had 1,176 shares of MetLife Trust stock valued at a \$37.76 and \$30.01 per share for a total of \$44,406 of \$35,292, respectively.

Credit Risk of Debt Securities

The City's investment policy does not cover credit risk for debt related investments.

The City's rated debt investments as of June 30, 2010 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale:

City's Rated Debt Investments' Values	
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>
	AAAm
SNAP	\$ 770,842
Government Obligations	1,012,385
Total	\$ 1,783,227

The fair value of the positions in the external investment pool (Local Government Investment Pool (LGIP)) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

Interest Rate Risk

The City's investment policy does not cover interest rate risk and had no investments subject to interest rate risk at June 30, 2010.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 5—Due from Other Governmental Units:

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

	Primary Government	Component Unit School Board
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 186,016	\$ -
Communication tax	54,875	-
State sales tax	-	103,150
Non-categorical aid	258,109	-
Categorical aid - shared expenses	45,020	-
Categorical aid - Comprehensive Services Act	186,403	-
Categorical aid - VPA	12,305	-
Categorical aid - other	49,484	-
<u>Federal Government:</u>		
Categorical aid - VPA	19,860	-
Categorical aid - other	19,802	70,359
Totals	<u>\$ 831,874</u>	<u>\$ 173,509</u>

Note 6—Interfund Transfers:

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Fund	Transfers In	Transfers Out
<u>Primary Government:</u>		
General Fund	\$ 291,309	\$ 243,275
Water Fund	-	123,253
Sewer Fund	-	168,056
School Debt Reserve Fund	1,353,552	-
School Construction Fund	-	1,110,277
Total	<u>\$ 1,644,861</u>	<u>\$ 1,644,861</u>

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

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 7—Long-Term Debt:

Primary Government - Governmental Activity Indebtedness:

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

Year Ending June 30,	General Obligation Bonds		Literary Fund Loans		Bond Anticipation Notes		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 305,731	\$ 132,443	\$ 145,000	\$ 6,525	\$ -	\$ 577,969	\$ 50,000	\$ 521,038
2012	319,522	122,455	-	-	-	506,250	50,000	519,037
2013	329,486	112,175	-	-	15,000,000	421,875	50,000	517,038
2014	133,000	102,978	-	-	-	-	100,000	514,037
2015	137,000	97,765	-	-	-	-	100,000	510,037
2016-2020	773,000	403,525	-	-	-	-	500,000	2,490,188
2021-2025	928,000	239,982	-	-	-	-	500,000	2,387,500
2026-2030	656,000	52,018	-	-	-	-	865,000	2,258,022
2031-2035	-	-	-	-	-	-	5,125,000	1,540,703
2036-2040	-	-	-	-	-	-	4,100,000	379,250
Totals	\$ 3,581,739	\$ 1,263,341	\$ 145,000	\$ 6,525	\$ 15,000,000	\$ 1,506,094	\$ 11,440,000	\$ 11,636,850

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2010:

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
General obligation bonds	\$ 3,887,647	\$ -	\$ (305,908)	\$ 3,581,739
Deferred amounts:				
Bond premiums	50,771	455,119	(50,771)	455,119
On refunding	(83,277)	(126,850)	89,646	(120,481)
Discounts	(262,446)	-	5,848	(256,598)
Bond anticipation notes	15,000,000	15,000,000	(15,000,000)	15,000,000
Literary loans	217,500	-	(72,500)	145,000
Lease revenue bond	11,490,000	-	(50,000)	11,440,000
Capital leases (note 8)	614,435	-	(141,295)	473,140
Landfill closure/ postclosure liability	5,354,422	-	(1,040,361)	4,314,061
Compensated absences	403,688	-	(41,578)	362,110
Net OPEB obligation	108,900	68,916	-	177,816
	<u>\$ 36,781,640</u>	<u>\$ 15,397,185</u>	<u>\$ (16,606,919)</u>	<u>\$ 35,571,906</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 7—Long-Term Debt: (Continued)

Primary Government - Governmental Activity Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
GO Refunding Bond	3.92%	6/17/2006	2028	\$ 3,232,000	\$ 2,997,000	\$ 119,000
GO Bond	2.51%	1/25/2008	2013	959,000	584,739	186,731
Total GO Bonds					3,581,739	305,731
Less:						
Deferred Amount on Refunding				(106,932)	(76,822)	(6,363)
Total GO Bonds, net					\$ 3,504,917	\$ 299,368
Other Long-term Debt:						
Literary Fund Loan	3.00%	1/1/1992	2012	\$ 1,450,000	\$ 145,000	\$ 145,000
Lease Revenue Bond	4.0%-4.5%	12/1/2007	2039	11,490,000	11,440,000	50,000
Bond Anticipation Note	3.75%	12/10/2009	2039	15,000,000	15,000,000	-
Deferred Amount on Refunding				(43,659)	(43,659)	(43,659)
Discount on Bond				(274,460)	(256,598)	(5,844)
Premium on Bond				455,119	455,119	156,544
Total Other Long-term Debt					\$ 26,739,862	\$ 302,041
Other Obligations:						
Capital lease	4.04%	3/16/2005	2015	\$ 731,128	\$ 391,981	\$ 72,312
Capital lease	3.99%	9/12/2006	2011	55,835	11,534	11,534
Capital lease	5.22%	6/22/2007	2011	120,530	25,299	25,299
Capital lease	4.18%	10/19/2007	2013	70,941	44,326	14,164
Total Capital Leases					\$ 473,140	\$ 123,309
Compensated Absences					362,110	-
Net OPEB obligation					177,816	-
Landfill Closure/Post-closure Monitoring					4,314,061	-
Total Other Obligations					\$ 5,327,127	\$ 123,309
Total Long-term Debt					\$ 35,571,906	\$ 724,718

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 7—Long-Term Debt: (Continued)

Primary Government - Enterprise Activity Indebtedness:

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

Year Ending June 30,	Revenue Bond			
	Water (40.04%)		Sewer (59.96%)	
	Principal	Interest	Principal	Interest
2011	\$ 126,572	\$ 15,120	\$ 189,542	\$ 22,642
2012	130,137	10,987	194,881	16,452
2013	135,504	6,710	202,917	10,047
2014	140,623	2,262	210,584	3,390
Totals	<u>\$ 532,836</u>	<u>\$ 35,079</u>	<u>\$ 797,924</u>	<u>\$ 52,531</u>

The following is a summary of long-term debt transactions of the Enterprise Fund for the year ended June 30, 2010:

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
Revenue bond	\$ 2,029,728	\$ -	\$ (698,968)	\$ 1,330,760
Deferred amount on refunding	(44,150)	-	8,831	(35,319)
Net OPEB obligation	-	38,584	-	38,584
Compensated absences	86,124	-	(8,202)	77,922
Total	<u>\$ 2,071,702</u>	<u>\$ 38,584</u>	<u>\$ (698,339)</u>	<u>\$ 1,411,947</u>

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 7—Long-Term Debt: (Continued)

Primary Government - Enterprise Activity Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bond:						
Revenue Bond	3.22%	8/18/2004	2014	\$ 4,665,377	\$ 1,330,760	\$ 316,114
Deferred Amount on Refunding					(35,319)	(8,830)
Total Revenue Bonds					<u>\$ 1,295,441</u>	<u>\$ 307,284</u>
Other Obligations:						
Compensated Absences					\$ 77,922	\$ -
Net OPEB Obligation					38,584	-
Total Other Obligations					<u>\$ 116,506</u>	<u>\$ -</u>
Total Long-term debt					<u>\$ 1,411,947</u>	<u>\$ 307,284</u>

Note 8—Capital Leases:

Primary Government:

The City has entered into lease agreements as lessee for the financing of acquisitions of a fire truck, a backhoe loader, and two refuse vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Fire Truck</u>	<u>Backhoe Loader</u>	<u>Refuse Vehicles</u>
Machinery and equipment	\$ 731,128	\$ 55,835	\$ 230,271
Less: Accumulated depreciation	<u>(344,532)</u>	<u>(45,265)</u>	<u>(187,115)</u>
Net Asset	<u>\$ 386,596</u>	<u>\$ 10,570</u>	<u>\$ 43,156</u>

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 8—Capital Leases: (Continued)

Primary Government: (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

Fiscal Year Ended	Fire Truck	Backhoe Loader	Refuse Vehicles
2011	\$ 88,148	\$ 12,001	\$ 42,671
2012	88,148	-	16,052
2013	88,149	-	16,052
2014	88,149	-	-
2015	88,149	-	-
Total minimum lease payments	\$ 440,743	\$ 12,001	\$ 74,775
Less: amount representing interest	(48,762)	(467)	(5,150)
Present value of minimum lease payments	\$ 391,981	\$ 11,534	\$ 69,625

Note 9—Long-Term Debt-Component Unit School Board:

Discretely Presented Component Unit - School Board-Indebtedness:

The following is a summary of long-term debt transactions of the School Board for the year ended June 30, 2010:

	Balance July 1, 2009	Issuances	Retirements	Balance June 30, 2010
Compensated absences	\$ 378,634	\$ 10,179	\$ -	\$ 388,813
Net OPEB obligation	81,000	70,700	-	151,700
	\$ 459,634	\$ 80,879	\$ -	\$ 540,513

Details of long-term indebtedness:

	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:		
Compensated absences	\$ 388,813	\$ -
Net OPEB obligation	151,700	-
Total Long-term debt	\$ 540,513	\$ -

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 10—Employee Retirement System and Pension Plans:

A. Plan Description

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

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and if the employer elects, for other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/Publications/2009-Annual-Report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary to the VRS. The employer may assume this 5.00% member contribution. In addition, the City of Covington, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City of Covington, Virginia's contribution rate for the fiscal year ended 2010 was 12.79% of annual covered payroll.

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

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary to the VRS. The employer may assume this 5.00% member contribution. In addition, the Covington City School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Covington City School Board's contribution rate for the fiscal year ended 2010 was 9.50% of annual covered payroll.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 10—Employee Retirement System and Pension Plans: (Continued)

C. Annual Pension Cost

For fiscal year 2010, the City of Covington, Virginia's annual pension cost of \$641,672 and \$75,643 was equal to the City of Covington, Virginia's required and actual contributions for the City and the School Board Non-Professionals, respectively.

Three-Year Trend Information

	Fiscal Year Ended	Annual Pension Cost (APC) ¹	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2008	\$ 748,550	100.00%	\$ -
	6/30/2009	654,870	100.00%	-
	6/30/2010	641,672	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2008	\$ 110,927	100.00%	\$ -
	6/30/2009	80,646	100.00%	-
	6/30/2010	75,643	100.00%	-

¹ Employer & employee portions

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) an investment rate of return (net of administrative expenses of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City of Covington, Virginia and Covington City School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City of Covington, Virginia and Covington City School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years.

Note 10—Employee Retirement System and Pension Plans: (Continued)

D. Funded Status and Funding Progress

Primary Government:

As of June 30, 2009, the most recent actuarial valuation date, the plan was 76.76% funded. The actuarial accrued liability for benefits was \$19,405,596, and the actuarial value of assets was \$14,895,599, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,509,997. The covered payroll (annual payroll of active employees covered by the plan) was \$3,649,801, and ratio of the UAAL to the covered payroll was 123.57%.

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

As of June 30, 2009, the most recent actuarial valuation date, the plan was 84.75% funded. The actuarial accrued liability for benefits was \$2,521,972, and the actuarial value of assets was \$2,137,323, resulting in an unfunded actuarial accrued liability (UAAL) of \$384,649. The covered payroll (annual payroll of active employees covered by the plan) was \$534,141, and ratio of the UAAL to the covered payroll was 72.01%.

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 liability (AAL) for benefits.

E. Discretely Presented Component Unit School Board

Professional Employees:

Plan Description:

The Covington City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/Publications/2009-Annual-Report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer may assume this 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution to the statewide cost sharing pool for professional employees, not including the 5% member contribution, was \$348,068, \$476,718, and \$487,952 for the fiscal years ended 2010, 2009, and 2008, respectively. Required employer contributions represented 8.81% for July 2009 through March 2010 and zero (0.00%) for April through June 2010, 8.81%, and 9.20%, of covered payroll for the fiscal years ended 2010, 2009, and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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 50 with 10 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 2010, the City School Board contributed \$29,800 and \$82,900, 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	\$ 93,403	\$ 24,275	\$ 19,622	\$ 137,300	\$ 153,700
Interest on net OPEB obligation	4,400	-	-	4,400	3,200
Adjustment to annual required contribution	(4,400)	-	-	(4,400)	(3,300)
Annual OPEB cost (expense)	93,403	24,275	19,622	137,300	153,600
Actual contributions	(24,487)	(2,938)	(2,375)	(29,800)	(82,900)
Increase in net OPEB obligation	68,916	21,337	17,247	107,500	70,700
Net OPEB obligation - beginning of year	108,900	-	-	108,900	81,000
Net OPEB obligation - end of year	\$ 177,816	\$ 21,337	\$ 17,247	\$ 216,400	\$ 151,700

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

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

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 were as follows:

Entity	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
City	6/30/2010	\$ 93,403	31.90%	\$ 177,816
City	6/30/2009	130,000	16.23%	108,900
School Board	6/30/2010	\$ 153,600	53.97%	\$ 151,700
School Board	6/30/2009	147,400	45.05%	81,000

D. Funded Status and Funding Progress

City:

As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$1,440,800, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$3,519,100, and ratio of the UAAL to the covered payroll was 40.94%.

School Board:

As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$1,723,300, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,481,000, and ratio of the UAAL to the covered payroll was 31.44%.

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

E. Actuarial Methods and Assumptions

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

E. Actuarial Methods and Assumptions (Continued)

In the July 1, 2008, 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 10 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, 2009, was 30 years.

Note 12—Other Post-Employment 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 10.

B. Funding Policy

Primary Government:

As a participating local political subdivision, the City is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2010 was 0.82% 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 2010 was 1.14% of annual covered payroll.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 12—Other Post-Employment Benefits (OPEB)-VRS Health Insurance Credit: (Continued)

C. 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 2010, the City's contribution of \$29,577 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 2010:

	<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
Primary Government:				
City	6/30/2010	\$ 29,577	100.00%	\$ -

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

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

For 2010, the School Board's contribution of \$4,496 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 2010:

	<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
Discretely Presented Component Unit				
School Board	6/30/2010	\$ 4,496	100.00%	\$ -

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 12—Other Post-Employment Benefits (OPEB)-VRS Health Insurance Credit: (Continued)

D. Funded Status and Funding Progress

Primary Government:

The funded status of the plan as of June 30, 2009, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	274,284
Actuarial value of plan assets	\$	55,933
Unfunded actuarial accrued liability (UAAL)	\$	218,351
Funded ratio (actuarial value of plan assets/AAL)		20.39%
Covered payroll (active plan members)	\$	3,649,801
UAAL as a percentage of covered payroll		5.98%

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

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

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

The funded status of the plan as of June 30, 2009, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	57,701
Actuarial value of plan assets	\$	9,347
Unfunded actuarial accrued liability (UAAL)	\$	48,354
Funded ratio (actuarial value of plan assets/AAL)		16.20%
Covered payroll (active plan members)	\$	534,141
UAAL as a percentage of covered payroll		9.05%

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 12—Other Post-Employment Benefits (OPEB)-VRS Health Insurance Credit: (Continued)

D. Funded Status and Funding Progress (Continued)

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

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

E. Actuarial Methods and Assumptions

Primary Government:

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.5% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2009 was 27 years.

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

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.5% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2009 was 27 years.

F. Professional Employees – Discretely Presented Component Unit School Board

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 12—Other Post-Employment Benefits (OPEB)-VRS Health Insurance Credit: (Continued)

F. Professional Employees – Discretely Presented Component Unit School Board (Continued)

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

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.04% of annual covered payroll. The School Board's contributions to VRS for the year ended June 30, 2010 was \$41,089 and equaled the required contributions.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**Note 13—Capital Assets:**

Capital asset activity for the year ended June 30, 2010 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,292,606	\$ 361,461	\$ -	\$ 1,654,067
Construction in progress	-	37,465	-	37,465
Total capital assets not being depreciated	\$ 1,292,606	\$ 398,926	\$ -	\$ 1,691,532
Capital assets, being depreciated:				
Buildings and improvements	\$ 31,277,659	\$ 918,732	\$ -	\$ 32,196,391
Infrastructure	427,396	54,505	-	481,901
Machinery and equipment	5,843,533	965,854	(247,023)	6,562,364
Total capital assets being depreciated	\$ 37,548,588	\$ 1,939,091	\$ (247,023)	\$ 39,240,656
Less: accumulated depreciation for:				
Buildings and improvements	\$ (3,140,810)	\$ (1,789,706)	\$ -	\$ (4,930,516)
Infrastructure	(242,269)	(15,210)	-	(257,479)
Machinery and equipment	(4,094,960)	(372,023)	241,470	(4,225,513)
Total accumulated depreciation	\$ (7,478,039)	\$ (2,176,939)	\$ 241,470	\$ (9,413,508)
Total capital assets being depreciated, net	\$ 30,070,549	\$ (237,848)	\$ (5,553)	\$ 29,827,148
Governmental activities capital assets, net	\$ 31,363,155	\$ 161,078	\$ (5,553)	\$ 31,518,680

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**Note 13—Capital Assets: (Continued)**

Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Enterprise Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 267,962	\$ -	\$ 267,962
Capital assets, being depreciated:				
Infrastructure	\$ 15,573,401	\$ 35,186	\$ -	\$ 15,608,587
Less: accumulated depreciation for:				
Infrastructure	\$ (8,221,091)	\$ (315,576)	\$ -	\$ (8,536,667)
Total capital assets being depreciated, net	\$ 7,352,310	\$ (280,390)	\$ -	\$ 7,071,920
Enterprise activities capital assets, net	\$ 7,352,310	\$ (12,428)	\$ -	\$ 7,339,882

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

Governmental activities:	
General government administration	\$ 98,990
Public safety	212,883
Public works	299,556
Education	615,686 *
Parks, recreation, and cultural	122,070
Total depreciation expense-governmental activities	\$ 1,349,185
Enterprise activities:	
Water and sewer funds	\$ 315,576
Total depreciation expense-Primary Government	\$ 1,664,761

*Amount does not include \$827,754 of depreciation in assets transferred from the School Board to the City

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**Note 13—Capital Assets: (Continued)**Discretely Presented Component Unit

Capital asset activity for the School Board for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 451,124	\$ -	\$ (361,461)	\$ 89,663
Total capital assets not being depreciated	\$ 451,124	\$ -	\$ (361,461)	\$ 89,663
Capital assets, being depreciated:				
Buildings	\$ 1,859,187	\$ -	\$ (846,384)	\$ 1,012,803
Machinery and equipment	867,355	-	(31,792)	835,563
Total capital assets being depreciated	\$ 2,726,542	\$ -	\$ (878,176)	\$ 1,848,366
Less: accumulated depreciation for:				
Buildings	\$ (1,216,228)	\$ (20,335)	\$ 843,161	\$ (393,402)
Machinery and equipment	(544,422)	(71,573)	31,621	(584,374)
Total accumulated depreciation	\$ (1,760,650)	\$ (91,908)	\$ 874,782	\$ (977,776)
Total capital assets being depreciated, net	\$ 965,892	\$ (91,908)	\$ (3,394)	\$ 870,590
Governmental activities capital assets, net	\$ 1,417,016	\$ (91,908)	\$ (364,855)	\$ 960,253

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 15—Contingent Liabilities:

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

A lawsuit has been filed against the City in the amount of \$1.5 million by an individual as a result of injuries sustained from a fall on a City sidewalk. The claim has been turned over to the City's insurer and the insurer has retained an attorney to represent the City with regard to the lawsuit. Loss, if any, cannot be reasonably estimated and therefore; has not been booked as a liability on the City's books.

Note 16—Surety Bonds:

Primary Government:

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

Note 17—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. The Peters Mountain Landfill, permit #178 stopped accepting waste during fiscal year 2001 and was closed by DEQ in 2002. Total costs for postclosure care are estimated to be \$420,992. These amounts are based on what it would cost to perform all postclosure care in 2010. Actual costs for postclosure 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 postclosure costs.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

Note 17—Landfill Closure and Post-Closure Care Cost: (Continued)

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. \$3,893,069 is the total estimated closure and postclosure care liability for Peters Mountain Landfill permit #594 at June 30, 2010. 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 postclosure care in 2010. As of June 30, 2010, the City's existing working cell is approximately 50% full, including cells A and B. The life expectancy for cells A and B is 9.25 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 postclosure 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 postclosure costs.

Note 18 – Deferred/Unearned Revenue:

Governmental funds report *deferred revenue* in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable	\$ 2,767,297	\$ 2,482,133
Personal property taxes relief	17,842	17,842
Prepaid taxes	20,155	20,155
Total deferred/unearned revenue for governmental funds	\$ 2,805,294	\$ 2,520,130

Note 19—Designated and Reserved Fund Balances/Restricted Net Assets:

Primary Government:

Designated for CDBG grants	\$ 34,185
Designated for future debt service	1,665,613
Designated for school construction	1,784,227
Total Primary Government	\$ 3,484,025

Component Unit - School Board:

Designated for school cafeterias	\$ 107,982
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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Note 20—Restatement of Fund Balance/Net Assets:

	Primary Government		Component Unit-School Board
	Governmental		Governmental
	Activities		Activities
	Net Assets	Fund Balance	Net Assets
Net Assets/Fund Balance, as previously stated, June 30, 2009	\$ 2,931,420	\$ 262,297	\$ 1,166,026
Accounts payable	-	(11,035)	(11,035)
Capital assets	(770,754)	-	(31,551)
Depreciation expense	57,861	-	85,204
Amortization	(49,430)	-	-
Net Assets/Fund Balance, as restated, July 1, 2009	\$ 2,169,097	\$ 251,262	\$ 1,208,644

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, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 7,555,615	\$ 7,555,615	\$ 7,058,693	\$ (496,922)
Other local taxes	3,285,899	3,285,899	3,170,222	(115,677)
Permits, privilege fees, and regulatory licenses	10,460	10,460	9,584	(876)
Fines and forfeitures	35,000	65,000	33,647	(31,353)
Revenue from the use of money and property	57,660	57,660	50,559	(7,101)
Charges for services	831,800	831,800	831,098	(702)
Miscellaneous	191,787	794,085	55,222	(738,863)
Recovered costs	213,900	213,900	171,282	(42,618)
Intergovernmental revenues:				
Commonwealth	4,019,380	4,047,786	3,194,559	(853,227)
Federal	215,214	259,159	354,192	95,033
Total revenues	\$ 16,416,715	\$ 17,121,364	\$ 14,929,058	\$ (2,192,306)
EXPENDITURES				
Current:				
General government administration	\$ 1,442,085	\$ 1,477,027	\$ 1,334,414	\$ 142,613
Judicial administration	106,992	129,230	122,901	6,329
Public safety	4,035,509	4,299,691	2,955,446	1,344,245
Public works	2,815,273	2,962,196	2,696,909	265,287
Health and welfare	1,816,960	1,816,960	1,724,165	92,795
Education	4,281,613	4,297,804	3,854,441	443,363
Parks, recreation, and cultural	1,364,088	2,015,818	1,484,555	531,263
Community development	80,570	119,981	99,201	20,780
Debt service:				
Principal retirement	984,961	984,961	569,703	415,258
Interest and other fiscal charges	-	-	175,927	(175,927)
Total expenditures	\$ 16,928,051	\$ 18,103,668	\$ 15,017,662	\$ 3,086,006
Excess (deficiency) of revenues over (under) expenditures	\$ (511,336)	\$ (982,304)	\$ (88,604)	\$ 893,700
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 302,718	\$ 302,718	\$ 291,309	\$ (11,409)
Transfers out	(159,000)	(40,211)	(243,275)	(203,064)
Total other financing sources and uses	\$ 143,718	\$ 262,507	\$ 48,034	\$ (214,473)
Net change in fund balances	\$ (367,618)	\$ (719,797)	\$ (40,570)	\$ 679,227
Fund balances - beginning	367,618	719,797	2,899,689	2,179,892
Fund balances - ending	\$ -	\$ -	\$ 2,859,119	\$ 2,859,119

City of Covington, Virginia
Required Supplementary Information

Schedule of Pension and OPEB Funding Progress
For the Year Ended June 30, 2010

Primary Government: City Retirement Plan

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2009	\$ 14,895,599	\$ 19,405,596	\$ 4,509,997	76.76%	\$ 3,649,801	123.57%
June 30, 2008	14,617,659	18,257,930	3,640,271	80.06%	3,645,569	99.85%
June 30, 2007	13,103,483	17,035,138	3,931,655	76.92%	3,541,414	111.02%

City Postemployment Healthcare Plan

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

City Postemployment VRS Health Insurance Credit

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2009	\$ 55,933	\$ 274,284	\$ 218,351	20.39%	\$ 3,649,801	5.98%
June 30, 2008	59,493	325,504	266,011	18.28%	3,645,569	7.30%
June 30, 2007	48,422	371,669	323,247	13.03%	3,541,414	9.13%

School Board Non-Professional Retirement Plan

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2009	\$ 2,137,323	\$ 2,521,972	\$ 384,649	84.75%	\$ 534,141	72.01%
June 30, 2008	2,186,720	2,424,580	237,840	90.19%	602,759	39.46%
June 30, 2007	1,989,954	2,283,923	293,969	87.13%	582,496	50.47%

School Board Postemployment Healthcare Plan

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2008*	\$ -	\$ 1,723,300	\$ 1,723,300	0.00%	\$ 5,481,000	31.44%

School Board Postemployment VRS Health Insurance Credit

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2009	\$ 9,347	\$ 57,701	\$ 48,354	16.20%	\$ 534,141	9.05%
June 30, 2008	10,041	66,449	56,408	15.11%	602,759	9.36%
June 30, 2007	6,341	87,297	80,956	7.26%	582,496	13.90%

*Only one year of data available

OTHER SUPPLEMENTARY INFORMATION

City of Covington, Virginia
School Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	<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	\$ -	\$ 10,945	\$ 10,945	\$ -
Recovered costs	-	350,000	-	(350,000)
Intergovernmental revenues:				
Covington City Schools	-	301,116	301,116	-
Commonwealth	227,948	51,986	-	(51,986)
Total revenues	<u>\$ 227,948</u>	<u>\$ 714,047</u>	<u>\$ 312,061</u>	<u>\$ (401,986)</u>
EXPENDITURES				
Capital projects	<u>\$ 734,671</u>	<u>\$ 1,717,601</u>	<u>\$ -</u>	<u>\$ 1,717,601</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (506,723)</u>	<u>\$ (1,003,554)</u>	<u>\$ 312,061</u>	<u>\$ 1,315,615</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,353,552</u>	<u>\$ 1,353,552</u>
Net change in fund balances	(506,723)	(1,003,554)	1,665,613	2,669,167
Fund balances - beginning	506,723	1,003,554	-	(1,003,554)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,665,613</u>	<u>\$ 1,665,613</u>

City of Covington, Virginia
School Construction Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2010

	<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	\$ -	\$ 5,046	\$ 5,045	\$ (1)
EXPENDITURES				
Capital projects	\$ -	\$ 1,697,255	\$ 652,859	\$ 1,044,396
Debt service:				
Principal retirement	-	15,221,719	15,000,000	221,719
Interest and other fiscal charges	-	2,440,757	1,055,532	1,385,225
Bond issuance costs	-	233,400	232,400	1,000
Total expenditures	\$ -	\$ 19,593,131	\$ 16,940,791	\$ 2,652,340
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (19,588,085)	\$ (16,935,746)	\$ 2,652,339
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ (1,110,277)	\$ (1,110,277)
Proceeds of bond anticipation note	-	15,000,000	15,000,000	-
Premium on bond anticipation note	-	455,119	455,119	-
Total other financing sources and uses	\$ -	\$ 15,455,119	\$ 14,344,842	\$ (1,110,277)
Net change in fund balances	\$ -	\$ (4,132,966)	\$ (2,590,904)	\$ 1,542,062
Fund balances - beginning	-	4,132,966	4,375,131	242,165
Fund balances - ending	\$ -	\$ -	\$ 1,784,227	\$ 1,784,227

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

MAJOR GOVERNMENTAL FUNDS

School Operating Fund - The School Operating Fund is a special revenue fund that 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, 2010

	School Operating Fund
ASSETS	
Cash and cash equivalents	\$ 1,028,163
Cash in custody of others	99,192
Receivables (net of allowance for uncollectibles):	
Accounts receivable	2,713
Due from other governmental units	173,509
Inventories	6,077
Prepaid items	119,315
Total assets	<u>\$ 1,428,969</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accrued liabilities	\$ 776,492
Due to primary government	352,133
Total liabilities	<u>\$ 1,128,625</u>
Fund balances:	
Reserved for:	
Inventories	\$ 6,077
Prepaid items	119,315
Unreserved:	
Designated	174,952
Total fund balances	<u>\$ 300,344</u>
Total liabilities and fund balances	<u>\$ 1,428,969</u>
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Total fund balances per above	\$ 300,344
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	960,253
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(540,513)
Net assets of governmental activities	<u>\$ 720,084</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, 2010

	School Operating Fund
REVENUES	
Revenue from the use of money and property	\$ 1,380
Charges for services	115,717
Miscellaneous	156,524
Recovered costs	4,646
Intergovernmental revenues:	
Local government	3,550,325
Commonwealth	4,798,190
Federal	1,469,221
Total revenues	<u>\$ 10,096,003</u>
EXPENDITURES	
Current:	
Education	\$ 9,830,368
Capital projects	216,553
Total expenditures	<u>\$ 10,046,921</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 49,082</u>
Net change in fund balances	\$ 49,082
Fund balances - beginning, as restated	251,262
Fund balances - ending	<u><u>\$ 300,344</u></u>
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
Net change in fund balances - total governmental funds - per above	\$ 49,082
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 the capital outlays exceeded depreciation in the current period.	(456,763)
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.	(80,879)
Change in net assets of governmental activities	<u><u>\$ (488,560)</u></u>

City of Covington, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2010

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 500	\$ 500	\$ 1,380	\$ 880
Charges for services	-	357,178	115,717	(241,461)
Miscellaneous	29,150	29,150	156,524	127,374
Recovered costs	55,000	55,000	4,646	(50,354)
Intergovernmental revenues:				
Local government	4,278,613	3,993,687	3,550,325	(443,362)
Commonwealth	5,168,252	5,168,252	4,798,190	(370,062)
Federal	1,145,283	1,446,400	1,469,221	22,821
Total revenues	\$ 10,676,798	\$ 11,050,167	\$ 10,096,003	\$ (954,164)
EXPENDITURES				
Current:				
Education	\$ 10,346,389	\$ 10,703,567	\$ 9,830,368	\$ 873,199
Capital projects	330,409	346,600	216,553	130,047
Total expenditures	\$ 10,676,798	\$ 11,050,167	\$ 10,046,921	\$ 1,003,246
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 49,082	\$ 49,082
Net change in fund balances	\$ -	\$ -	\$ 49,082	\$ 49,082
Fund balances - beginning, as restated	-	-	251,262	251,262
Fund balances - ending	\$ -	\$ -	\$ 300,344	\$ 300,344

SUPPORTING SCHEDULES

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

Schedule 1
Page 1 of 5

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,905,635	\$ 1,905,635	\$ 1,865,076	\$ (40,559)
Real and personal public service corporation taxes	140,670	140,670	143,920	3,250
Personal property taxes	1,221,686	1,221,686	775,385	(446,301)
Mobile home taxes	8,430	8,430	7,220	(1,210)
Machinery and tools taxes	4,216,194	4,216,194	4,188,305	(27,889)
Penalties	40,000	40,000	47,479	7,479
Interest	23,000	23,000	31,308	8,308
Total general property taxes	\$ 7,555,615	\$ 7,555,615	\$ 7,058,693	\$ (496,922)
Other local taxes:				
Local sales and use taxes	\$ 1,234,879	\$ 1,234,879	\$ 1,134,788	\$ (100,091)
Consumers' utility taxes	440,000	440,000	418,958	(21,042)
Consumption taxes	28,000	28,000	25,525	(2,475)
Business license taxes	540,000	540,000	483,434	(56,566)
Motor vehicle licenses	110,000	110,000	106,707	(3,293)
Bank stock taxes	140,000	140,000	148,401	8,401
Recordation tax	6,120	6,120	21,457	15,337
Hotel and motel room taxes	1,900	1,900	1,331	(569)
Restaurant food taxes	705,000	705,000	753,184	48,184
Tobacco taxes	80,000	80,000	76,437	(3,563)
Total other local taxes	\$ 3,285,899	\$ 3,285,899	\$ 3,170,222	\$ (115,677)
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 1,100	\$ 1,100	\$ 1,178	\$ 78
Dog pound fees	1,400	1,400	507	(893)
Special use permits	200	200	652	452
Zoning and subdivision permits	1,400	1,400	412	(988)
Building permits	6,100	6,100	6,670	570
Sign permits	250	250	75	(175)
Other permits and licenses	10	10	90	80
Total permits, privilege fees, and regulatory licenses	\$ 10,460	\$ 10,460	\$ 9,584	\$ (876)
Fines and forfeitures:				
Court fines and forfeitures	\$ 35,000	\$ 65,000	\$ 33,647	\$ (31,353)
Revenue from use of money and property:				
Revenue from use of money	\$ 46,260	\$ 46,260	\$ 39,650	\$ (6,610)
Revenue from use of property	11,400	11,400	10,909	(491)
Total revenue from use of money and property	\$ 57,660	\$ 57,660	\$ 50,559	\$ (7,101)
Charges for services:				
Maintenance of highways	\$ -	\$ -	\$ 1,245	\$ 1,245
Charges for fire and rescue services	100,000	100,000	100,000	-
Charges for sanitation and waste removal	586,600	586,600	592,822	6,222
Charges for parks and recreation	28,500	28,500	33,862	5,362
Charges for landfill closure	88,000	88,000	60,018	(27,982)
Charges for sewer service	-	-	5,677	5,677

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Charges for cemetery	\$ 24,000	\$ 24,000	\$ 35,099	\$ 11,099
Charges for other services	4,700	4,700	2,375	(2,325)
Total charges for services	\$ 831,800	\$ 831,800	\$ 831,098	\$ (702)
Miscellaneous revenue:				
Miscellaneous	\$ 191,787	\$ 794,085	\$ 55,222	\$ (738,863)
Recovered costs:				
Library salary reimbursement	\$ 165,000	\$ 165,000	\$ 126,855	\$ (38,145)
CSA recoveries	-	-	24,055	24,055
Other recovered costs	48,900	48,900	20,372	(28,528)
Total recovered costs	\$ 213,900	\$ 213,900	\$ 171,282	\$ (42,618)
Total revenue from local sources	\$ 12,182,121	\$ 12,814,419	\$ 11,380,307	\$ (1,434,112)
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 25,000	\$ 25,000	\$ -	\$ (25,000)
Mobile home titling tax	6,000	6,000	4,162	(1,838)
Motor vehicle rental tax	-	-	14,165	14,165
State recordation tax	-	-	5,405	5,405
State aid to localities	-	-	-	-
Telecommunications taxes	330,750	330,750	325,105	(5,645)
Personal property tax relief funds	-	-	547,168	547,168
Total noncategorical aid	\$ 361,750	\$ 361,750	\$ 896,005	\$ 534,255
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 75,000	\$ 75,000	\$ 71,771	\$ (3,229)
Treasurer	81,000	81,000	75,216	(5,784)
Medical examiner	50	50	-	(50)
Registrar/electoral board	37,156	37,156	31,369	(5,787)
Total shared expenses	\$ 193,206	\$ 193,206	\$ 178,356	\$ (14,850)
Other categorical aid:				
Welfare payments	\$ 517,890	\$ 517,890	\$ 140,682	\$ (377,208)
CSA payments	625,938	625,938	675,670	49,732
Criminal justice grant	284,440	284,440	257,064	(27,376)
Litter control grant	6,300	6,300	4,989	(1,311)
Technology E-911 grants	38,000	38,000	-	(38,000)
Fire program	16,600	17,389	17,389	-
Asset forfeiture	3,982	33,982	14,593	(19,389)
Local government challenge grant	5,000	5,000	5,000	-
Two-for-life	5,100	5,100	5,232	132
School resource officer	35,440	35,440	25,784	(9,656)
Law enforcement block grant	-	2,778	1,587	(1,191)
State and local foster care	-	-	2,633	2,633

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
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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 revenues: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid: (Continued)				
State highway payments	\$ 859,000	\$ 859,000	\$ 853,393	\$ (5,607)
Victim-witness grant	13,023	14,162	12,627	(1,535)
Interoperable communication grant	480,000	480,000	-	(480,000)
Bulletproof vest program	3,500	3,500	-	(3,500)
Information technology grant	200,000	200,000	-	(200,000)
E-911 grant program	300,000	293,700	42,784	(250,916)
Emergency medical services	9,400	9,400	-	(9,400)
State homeland security grant	60,761	60,761	60,761	-
Other State funds	50	50	10	(40)
Total other categorical aid	<u>\$ 3,464,424</u>	<u>\$ 3,492,830</u>	<u>\$ 2,120,198</u>	<u>\$ (1,372,632)</u>
Total categorical aid	<u>\$ 3,657,630</u>	<u>\$ 3,686,036</u>	<u>\$ 2,298,554</u>	<u>\$ (1,387,482)</u>
Total revenue from the Commonwealth	<u>\$ 4,019,380</u>	<u>\$ 4,047,786</u>	<u>\$ 3,194,559</u>	<u>\$ (853,227)</u>
Revenue from the federal government:				
Categorical aid:				
Historic preservation grant	\$ 27,000	\$ 33,300	\$ 34,430	\$ 1,130
Victim witness	39,068	42,485	37,880	(4,605)
Homeland security grants	-	21,900	31,246	9,346
DMV grant	5,000	16,267	4,360	(11,907)
ARRA - JAG	5,201	6,262	1,910	(4,352)
ARRA - Public assistance and welfare administration	-	-	28,031	28,031
Public assistance and welfare administration	138,945	138,945	216,335	77,390
Total categorical aid	<u>\$ 215,214</u>	<u>\$ 259,159</u>	<u>\$ 354,192</u>	<u>\$ 95,033</u>
Total revenue from the federal government	<u>\$ 215,214</u>	<u>\$ 259,159</u>	<u>\$ 354,192</u>	<u>\$ 95,033</u>
Total General Fund	<u>\$ 16,416,715</u>	<u>\$ 17,121,364</u>	<u>\$ 14,929,058</u>	<u>\$ (2,192,306)</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>\$ -</u>	<u>\$ 10,945</u>	<u>\$ 10,945</u>	<u>\$ -</u>
Recovered costs:				
Other recovered costs	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$ (350,000)</u>
Intergovernmental revenue:				
Revenues from local governments:				
Contribution from Covington City Schools	<u>\$ -</u>	<u>\$ 301,116</u>	<u>\$ 301,116</u>	<u>\$ -</u>

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
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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>
Debt Service Fund: (Continued)				
School Debt Service Reserve Fund: (Continued)				
Intergovernmental revenue: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
School construction payments	\$ 227,948	\$ 51,986	\$ -	\$ (51,986)
Total School Debt Service Fund	\$ 227,948	\$ 714,047	\$ 312,061	\$ (401,986)
Capital Projects Fund:				
School Construction Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ 5,046	\$ 5,045	\$ (1)
Total School Construction Fund	\$ -	\$ 5,046	\$ 5,045	\$ (1)
Total Primary Government	\$ 16,644,663	\$ 17,840,457	\$ 15,246,164	\$ (2,594,293)
Discretely Presented Component Unit - School Board:				
Special Revenue Funds:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 755	\$ 755
Revenue from the use of property	500	500	625	125
Total revenue from use of money and property	\$ 500	\$ 500	\$ 1,380	\$ 880
Charges for services:				
Cafeteria sales	\$ -	\$ 357,178	\$ 115,717	\$ (241,461)
Miscellaneous revenue:				
Miscellaneous	\$ 29,150	\$ 29,150	\$ 156,524	\$ 127,374
Recovered costs:				
Payments from other localities	\$ 55,000	\$ 55,000	\$ 4,646	\$ (50,354)
Total revenue from local sources	\$ 84,650	\$ 441,828	\$ 278,267	\$ (163,561)
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Covington, Virginia	\$ 4,278,613	\$ 3,993,687	\$ 3,550,325	\$ (443,362)
Revenue from the Commonwealth:				
Categorical aid:				
Algebra readiness	\$ 13,066	\$ 13,066	\$ 10,934	\$ (2,132)
At risk four year olds	120,913	120,913	100,066	(20,847)
At risk payments	79,692	79,692	78,271	(1,421)
Basic school aid	2,829,498	2,829,498	2,557,675	(271,823)
Early reading intervention	-	-	14,924	14,924
Education technology payment	128,000	128,000	128,000	-

City of Covington, Virginia
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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)				
Special Revenue Funds: (Continued)				
School Operating Fund: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
English as a second language	\$ 2,033	\$ 2,033	\$ 1,191	\$ (842)
Fringe benefits	397,511	397,511	340,423	(57,088)
Gifted and talented	26,267	26,267	26,231	(36)
Other state funds	5,205	5,205	3,249	(1,956)
High schools that work	21,320	21,320	-	(21,320)
ISAP program	7,859	7,859	7,859	-
Lottery funds	-	-	67,298	67,298
National board certification teacher bonus	-	-	5,000	5,000
Primary class size	116,841	116,841	113,879	(2,962)
Remedial education	86,390	86,390	86,272	(118)
School food	6,597	6,597	7,409	812
Remedial summer education	31,087	31,087	21,696	(9,391)
Share of state sales tax	616,378	616,378	586,855	(29,523)
Special education	481,566	481,566	480,906	(660)
Special education - foster children	37,655	37,655	35,877	(1,778)
Textbook payment	69,182	69,182	31,397	(37,785)
Vocational education	85,223	85,223	85,106	(117)
Vocational education - technology	-	-	2,584	2,584
Vocational occupational preparedness	5,969	5,969	5,088	(881)
Total categorical aid	\$ 5,168,252	\$ 5,168,252	\$ 4,798,190	\$ (370,062)
Total revenue from the Commonwealth	\$ 5,168,252	\$ 5,168,252	\$ 4,798,190	\$ (370,062)
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 366,685	\$ 366,685	\$ 228,863	\$ (137,822)
ARRA - Title I	-	-	46,764	46,764
Title VI-B, special education flow-through	325,753	325,753	174,216	(151,537)
ARRA - Title VI-B, special education flow-through	-	-	119,328	119,328
Vocational education	20,000	20,000	17,219	(2,781)
Title VI-B, special education pre-school	16,171	16,171	10,273	(5,898)
ARRA - Title VI-B, special education pre-school	-	-	5,898	5,898
Drug free schools	8,196	8,196	4,002	(4,194)
Title II, Part A	85,347	85,347	62,408	(22,939)
Literacy challenge grant	-	-	2,524	2,524
School breakfast program	40,000	40,000	61,160	21,160
School lunch program	140,650	140,650	175,325	34,675
School lunch commodities	-	-	15,518	15,518
ARRA - State fiscal stabilization funds	133,911	435,028	526,656	91,628
Reading first	-	-	11,341	11,341
Education technology	8,570	8,570	2,102	(6,468)
ARRA - Education technology	-	-	5,624	5,624
Total categorical aid	\$ 1,145,283	\$ 1,446,400	\$ 1,469,221	\$ 22,821
Total revenue from the federal government	\$ 1,145,283	\$ 1,446,400	\$ 1,469,221	\$ 22,821
Total Discretely Presented Component Unit - School Board	\$ 10,676,798	\$ 11,050,167	\$ 10,096,003	\$ (954,164)

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
City council	\$ 45,657	\$ 48,052	\$ 46,508	\$ 1,544
General and financial administration:				
City manager	\$ 263,635	\$ 263,378	\$ 237,525	\$ 25,853
Information technology	101,370	96,861	31,223	65,638
Legal services	57,545	83,712	62,756	20,956
Commissioner of revenue	210,397	210,714	203,246	7,468
City clerk	11,065	11,651	11,573	78
Independent auditors	42,281	50,205	46,823	3,382
Treasurer	262,407	262,788	252,687	10,101
Central accounting	378,631	379,006	375,353	3,653
Total general and financial administration	\$ 1,327,331	\$ 1,358,315	\$ 1,221,186	\$ 137,129
Board of elections:				
Electoral board and officials	\$ 69,097	\$ 70,660	\$ 66,720	\$ 3,940
Total general government administration	\$ 1,442,085	\$ 1,477,027	\$ 1,334,414	\$ 142,613
Judicial administration:				
Courts:				
Circuit court	\$ 9,279	\$ 9,319	\$ 9,318	\$ 1
General district court	5,450	5,652	4,781	871
Magistrates office	6,523	7,408	2,875	4,533
Clerk of the circuit court	26,624	37,116	37,116	-
Sheriff (court)	34,461	49,781	49,781	-
Total courts	\$ 82,337	\$ 109,276	\$ 103,871	\$ 5,405
Commonwealth's attorney:				
Commonwealth's attorney	\$ 24,655	\$ 19,954	\$ 19,030	\$ 924
Total judicial administration	\$ 106,992	\$ 129,230	\$ 122,901	\$ 6,329
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,261,564	\$ 1,325,341	\$ 1,299,056	\$ 26,285
Sheriff	204,321	198,445	198,444	1
Emergency system	1,728,649	1,722,239	502,423	1,219,816
Victim witness	52,065	56,621	51,596	5,025
Highway safety grant	-	2,778	-	2,778
E-911 wireless grant	-	154,881	151,490	3,391
School resource officer	51,000	51,000	51,111	(111)
Seizure/forfeiture funds	7,782	67,782	19,811	47,971
DMV grants	-	-	1,700	(1,700)
Total law enforcement and traffic control	\$ 3,305,381	\$ 3,579,087	\$ 2,275,631	\$ 1,303,456
Fire and rescue services:				
Volunteer fire department	\$ 182,447	\$ 183,745	\$ 161,536	\$ 22,209
Ambulance service	189,593	211,493	209,181	2,312
Total fire and rescue services	\$ 372,040	\$ 395,238	\$ 370,717	\$ 24,521

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
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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)				
Correction and detention:				
Sheriff (jail)	\$ 142,795	\$ 114,039	\$ 113,085	\$ 954
Probation office	7,331	8,171	7,000	1,171
Total correction and detention	\$ 150,126	\$ 122,210	\$ 120,085	\$ 2,125
Inspections:				
Building	\$ 104,271	\$ 105,986	\$ 92,339	\$ 13,647
Other protection:				
Animal control	\$ 82,070	\$ 97,070	\$ 96,654	\$ 416
Medical examiner	100	100	20	80
Civil defense	21,521	-	-	-
Total other protection	\$ 103,691	\$ 97,170	\$ 96,674	\$ 496
Total public safety	\$ 4,035,509	\$ 4,299,691	\$ 2,955,446	\$ 1,344,245
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 122,213	\$ 123,816	\$ 119,719	\$ 4,097
Street department	993,741	1,012,854	952,411	60,443
Snow and ice removal	22,219	44,873	45,294	(421)
Traffic engineering	153,831	153,831	137,999	15,832
Street cleaning	12,500	12,500	3,775	8,725
Street lights	180,000	180,000	150,685	29,315
Total maintenance of highways, streets, bridges & sidewalks	\$ 1,484,504	\$ 1,527,874	\$ 1,409,883	\$ 117,991
Sanitation and waste removal:				
Refuse collection	\$ 268,909	\$ 277,429	\$ 263,867	\$ 13,562
Refuse disposal	409,751	419,708	413,686	6,022
Landfill closure	38,000	38,000	7,150	30,850
Litter control grant	6,300	6,300	4,989	1,311
Recycling program	27,000	27,000	27,000	-
Total sanitation and waste removal	\$ 749,960	\$ 768,437	\$ 716,692	\$ 51,745
Maintenance of general buildings and grounds:				
General properties	\$ 368,931	\$ 450,114	\$ 367,705	\$ 82,409
Motor vehicular maintenance	211,878	215,771	202,629	13,142
Total maintenance of general buildings and grounds	\$ 580,809	\$ 665,885	\$ 570,334	\$ 95,551
Total public works	\$ 2,815,273	\$ 2,962,196	\$ 2,696,909	\$ 265,287
Health and welfare:				
Health:				
Supplement of local health department	\$ 88,336	\$ 88,336	\$ 88,336	\$ -
Alleghany Highlands free clinic	7,000	7,000	7,000	-
Total health	\$ 95,336	\$ 95,336	\$ 95,336	\$ -
Mental health and mental retardation:				
Alleghany Highlands community services board	\$ 23,284	\$ 23,284	\$ 23,284	\$ -

City of Covington, Virginia
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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Health and welfare: (Continued)				
Welfare:				
T. A. P.	\$ 6,000	\$ 6,000	\$ 6,000	\$ -
Safehomes, Inc.	4,000	4,000	4,000	-
Jackson river enterprise	15,000	15,000	15,000	-
Second harvest food bank	1,250	1,250	1,250	-
Alleghany Highlands CSA foster care	910,208	910,208	978,351	(68,143)
HOPE, Inc.	500	500	500	-
Social Services	753,882	753,882	570,413	183,469
Other welfare	7,500	7,500	30,031	(22,531)
Total welfare	\$ 1,698,340	\$ 1,698,340	\$ 1,605,545	\$ 92,795
Total health and welfare	\$ 1,816,960	\$ 1,816,960	\$ 1,724,165	\$ 92,795
Education:				
Other instructional costs:				
Contributions to Community College	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Contribution to City School Board	4,278,613	4,294,804	3,851,441	443,363
Total education	\$ 4,281,613	\$ 4,297,804	\$ 3,854,441	\$ 443,363
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 797,478	\$ 922,660	\$ 912,067	\$ 10,593
Pedestrian/bicycle improvements	-	512,500	37,466	475,034
Total parks and recreation	\$ 797,478	\$ 1,435,160	\$ 949,533	\$ 485,627
Cultural enrichment:				
Senior center	\$ 81,131	\$ 81,131	\$ 75,621	\$ 5,510
Cemetery	134,120	143,668	141,687	1,981
League of older Americans	2,418	2,418	2,418	-
YMCA	10,741	10,741	10,741	-
Salvation Army	40,000	40,000	40,000	-
Alleghany Highlands arts council	10,000	10,000	10,000	-
Alleghany Highlands arts/craft center	2,800	2,800	2,800	-
CSX restoration	-	4,500	4,500	-
Total cultural enrichment	\$ 281,210	\$ 295,258	\$ 287,767	\$ 7,491
Library:				
Contribution to regional library	\$ 120,400	\$ 120,400	\$ 120,400	\$ -
Library payroll	165,000	165,000	126,855	38,145
Total library	\$ 285,400	\$ 285,400	\$ 247,255	\$ 38,145
Total parks, recreation, and cultural	\$ 1,364,088	\$ 2,015,818	\$ 1,484,555	\$ 531,263
Community development:				
Planning and community development:				
Planning commission	\$ 9,525	\$ 9,525	\$ 5,004	\$ 4,521
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	612	612	294	318
Economic development	29,273	29,273	21,246	8,027
CDBG program	6,760	46,171	38,257	7,914
Total planning and community development	\$ 66,170	\$ 105,581	\$ 84,801	\$ 20,780
Environmental management:				
Contribution to soil and water district	\$ 2,000	\$ 2,000	\$ 2,000	\$ -

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
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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)				
Community development: (Continued)				
Cooperative extension program:				
Extension office	\$ 12,400	\$ 12,400	\$ 12,400	\$ -
Total community development	\$ 80,570	\$ 119,981	\$ 99,201	\$ 20,780
Debt service:				
Principal retirement	\$ 984,961	\$ 984,961	\$ 569,703	\$ 415,258
Interest and other fiscal charges	-	-	175,927	(175,927)
Total debt service	\$ 984,961	\$ 984,961	\$ 745,630	\$ 239,331
Total General Fund	\$ 16,928,051	\$ 18,103,668	\$ 15,017,662	\$ 3,086,006
Debt Service Fund:				
School Debt Service Fund:				
Capital projects:				
School capital projects	\$ 734,671	\$ 1,717,601	\$ -	\$ 1,717,601
Capital projects fund:				
School Construction Fund:				
Capital Outlay:				
School construction	\$ -	\$ 1,697,255	\$ 652,859	\$ 1,044,396
Debt Service				
Principal	\$ -	\$ 15,221,719	\$ 15,000,000	\$ 221,719
Interest	-	2,440,757	1,055,532	1,385,225
Bond issuance costs	-	233,400	232,400	1,000
Total Debt Service	\$ -	\$ 17,895,876	\$ 16,287,932	\$ 1,607,944
Total School Construction Fund	\$ -	\$ 19,593,131	\$ 16,940,791	\$ 2,652,340
Total Primary Government	\$ 17,662,722	\$ 39,414,400	\$ 31,958,453	\$ 7,455,947

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
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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>
Discretely Presented Component Unit - School Board:				
Special revenue funds:				
School Operating Fund:				
Education:				
Administration of schools:				
Attendance and health services	\$ 313,826	\$ 313,826	\$ 248,249	\$ 65,577
Executive administration services	285,978	285,978	249,404	36,574
Total administration of schools	<u>\$ 599,804</u>	<u>\$ 599,804</u>	<u>\$ 497,653</u>	<u>\$ 102,151</u>
Instruction costs:				
Instruction costs	<u>\$ 7,852,900</u>	<u>\$ 7,852,900</u>	<u>\$ 7,483,958</u>	<u>\$ 368,942</u>
School food services:				
Administration of school food program	<u>\$ 301,794</u>	<u>\$ 658,972</u>	<u>\$ 428,945</u>	<u>\$ 230,027</u>
Operating costs:				
Pupil transportation	\$ 301,543	\$ 301,543	\$ 253,244	\$ 48,299
Operation and maintenance of school plant	1,109,538	1,109,538	981,271	128,267
Facilities	180,810	180,810	185,297	(4,487)
Total operating costs	<u>\$ 1,591,891</u>	<u>\$ 1,591,891</u>	<u>\$ 1,419,812</u>	<u>\$ 172,079</u>
Total education	<u>\$ 10,346,389</u>	<u>\$ 10,703,567</u>	<u>\$ 9,830,368</u>	<u>\$ 873,199</u>
Capital projects:				
School capital projects	<u>\$ 330,409</u>	<u>\$ 346,600</u>	<u>\$ 216,553</u>	<u>\$ 130,047</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 10,676,798</u>	<u>\$ 11,050,167</u>	<u>\$ 10,046,921</u>	<u>\$ 1,003,246</u>

STATISTICAL SECTION

Table 1

City of Covington, Virginia
Government-Wide Expenses by Function
Last Ten Fiscal Years (1)

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
2002-03	\$ 1,055,705	\$ 50,433	\$ 2,142,205	\$ 2,717,084	\$ 1,254,643	\$ 3,594,198	\$ 1,179,695	\$ 561,154	\$ 349,266	\$ 1,130,580	\$ 995,815	\$ 15,030,778
2003-04	1,121,931	69,451	2,156,715	3,644,914	1,275,738	4,587,526	1,668,570	324,659	299,280	1,121,311	937,552	17,207,647
2004-05	1,253,035	70,963	2,507,755	2,693,743	1,763,883	4,163,615	1,619,498	100,564	275,249	1,131,485	961,547	16,541,337
2005-06	1,282,421	96,343	2,633,846	2,715,275	1,940,982	4,354,525	1,723,619	148,008	253,885	1,221,055	976,948	17,346,917
2006-07	1,348,829	94,087	1,806,435	2,859,288	1,338,133	4,127,562	1,162,741	131,916	225,605	1,200,931	956,660	15,252,187
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	18,082,120
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
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

(1) Information has only been available for 8 years.

City of Covington, Virginia
Government-Wide Revenues
Last Ten Fiscal Years (1)

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES							Total
	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		
2002-03	\$ 3,479,541	\$ 2,334,219	\$ -	\$	6,395,508	2,814,568	40,413	\$ 369,127	803,894	\$	16,237,270
2003-04	3,485,319	2,388,752	190,160		6,626,610	2,736,083	28,838	651,196	584,240		16,691,198
2004-05	3,314,632	2,937,429	355,952		6,350,711	3,588,473	33,427	140,613	555,303		17,276,540
2005-06	3,385,156	2,761,961	12,466		6,690,501	3,450,717	98,716	268,694	354,969		17,023,180
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
2007-08	4,074,449	3,076,482	2,800		6,618,780	3,533,607	574,455	124,710	-		18,005,283
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
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

(1) Information has only been available for 8 years.

Table 3

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural	Community Development	Capital Projects	Non-departmental	Debt Service (3)	Total
2000-01	\$ 1,069,013	\$ 67,860	\$ 1,945,180	\$ 4,809,558	\$ 1,269,410	\$ 7,896,974	\$ 938,532	\$ 423,750	\$ 731,584	\$ 1,490	\$ 2,016,983	\$ 21,270,334
2001-02	1,112,732	60,554	2,396,332	3,052,489	1,361,425	8,194,998	1,061,846	1,086,774	771,186	-	865,450	19,963,786
2002-03	1,133,611	50,433	2,222,311	2,456,115	1,254,643	8,430,439	1,512,747	564,553	310,982	-	904,096	18,839,930
2003-04	1,160,650	69,451	2,060,032	2,326,777	1,271,537	9,541,118	1,763,737	324,601	-	-	909,478	19,427,381
2004-05	1,291,565	70,963	3,262,783	2,620,625	1,810,388	9,692,992	1,741,903	100,474	244,943	-	888,696	21,725,332
2005-06	1,225,103	96,343	2,449,642	2,585,665	1,939,910	9,760,811	1,864,709	147,992	813,456	5,674	1,291,859	22,181,164
2006-07	1,425,506	94,087	2,582,309	2,985,907	1,338,133	10,062,235	2,237,175	132,564	716,075	3,303	871,293	22,448,587
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
2008-09	1,391,596	61,292	2,652,747	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
2009-10	1,334,414	122,901	2,955,446	2,696,909	1,724,165	9,633,368	1,484,555	99,201	869,412	-	1,801,162	22,921,533

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

(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.

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
2000-01	\$ 6,249,069	\$ 2,761,699	\$ 15,393	\$ 11,579	\$ 222,279	\$ 1,242,340	\$ 153,393	\$ 178,582	\$ 7,243,433	\$ 18,077,767
2001-02	6,319,457	2,963,757	14,953	23,159	78,672	641,818	140,684	258,253	8,107,512	18,548,265
2002-03	6,382,305	2,814,568	12,126	31,476	41,634	1,011,604	399,535	1,715,041	7,756,609	20,164,898
2003-04	6,621,945	2,736,083	13,386	25,082	29,593	1,112,448	652,947	246,078	8,063,594	19,501,156
2004-05	6,457,064	3,588,473	11,600	23,813	33,967	918,580	170,854	269,656	9,306,820	20,780,827
2005-06	6,597,703	3,450,717	10,182	38,443	98,843	1,083,947	267,250	148,868	8,867,579	20,563,532
2006-07	6,705,292	3,452,298	11,610	31,006	79,295	1,038,299	567,379	179,877	10,306,054	22,371,110
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
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
2009-10	7,058,693	3,170,222	9,584	33,647	67,929	946,815	213,963	175,928	9,813,945	21,490,726

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

(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
2000-01	\$ 6,735,641	\$ 6,551,172	97.26%	\$ 70,441	\$ 6,621,613	98.31%	\$ 389,699	5.79%
2001-02	6,899,592	6,728,972	97.53%	58,138	6,787,110	98.37%	398,483	5.78%
2002-03	6,953,414	6,780,315	97.51%	81,378	6,861,693	98.68%	457,776	6.58%
2003-04	7,005,380	6,968,616	99.48%	122,041	7,090,657	101.22%	452,027	6.45%
2004-05	6,857,539	6,817,256	99.41%	81,683	6,898,939	100.60%	449,657	6.56%
2005-06	7,067,230	6,465,933	91.49%	77,498	6,543,431	92.59%	408,182	5.78%
2006-07	7,154,153	6,670,832	93.24%	68,673	6,739,505	94.20%	448,588	6.27%
2007-08	7,412,981	6,803,543	91.78%	73,600	6,877,143	92.77%	512,105	6.91%
2008-09	7,383,021	7,300,339	98.88%	67,143	7,367,482	99.79%	407,773	5.52%
2009-10	7,535,231	7,396,523	98.16%	130,551	7,527,074	99.89%	439,189	5.83%

(1) Exclusive of penalties and interest.

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

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

Table 6

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

Fiscal Year	Real Estate (1)	Personal Property and Mobile Homes	Machinery and Tools	Public Utility (2)			Total
				Real Estate	Personal Property		
2000-01	\$ 221,478,538	\$ 20,316,499	\$ 71,580,850	\$ 21,134,901	\$ 41,771	\$	334,552,559
2001-02	223,019,631	20,102,128	74,671,325	20,758,082	34,879		338,586,045
2002-03	223,834,368	20,288,738	75,406,440	20,099,666	29,418		339,658,630
2003-04	242,385,405	18,505,757	77,683,500	20,318,577	15,167		358,908,406
2004-05	244,055,089	19,427,376	73,783,780	20,211,474	14,129		357,491,848
2005-06	244,652,300	21,888,230	75,115,640	19,402,713	20,924		361,079,807
2006-07	247,361,800	22,315,930	75,520,600	20,174,443	8,201		365,380,974
2007-08	280,613,600	22,563,190	76,476,640	19,700,864	7,786		399,362,080
2008-09	281,865,500	22,555,370	75,747,170	21,429,843	72,863		401,670,746
2009-10	282,219,900	24,892,990	76,096,510	21,401,377	35,464		404,646,241

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

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

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
2000-01	\$ 0.71	\$ 0.71	\$ 5.60	\$ 5.53
2001-02	0.71	0.71	5.60	5.53
2002-03	0.71	0.71	5.60	5.53
2003-04	0.66	0.66	5.60	5.53
2004-05	0.66	0.66	5.60	5.53
2005-06	0.66	0.66	5.60	5.52
2006-07	0.66	0.66	5.60	5.52
2007-08	0.66	0.66	5.60	5.52
2008-09	0.66	0.66	5.60	5.52
2009-10	0.66	0.66	5.60	5.52

(1) Per \$100 of assessed value.

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2000-01	6,303	\$ 334,553	\$ 13,387,500	4.00%	\$ 2,124
2001-02	6,303	338,586	12,440,000	3.67%	1,974
2002-03	6,303	339,659	11,452,500	3.37%	1,817
2003-04	6,303	358,908	10,425,000	2.90%	1,654
2004-05	6,303	357,492	9,529,596	2.67%	1,512
2005-06	6,303	361,080	8,506,460	2.36%	1,350
2006-07	6,303	365,381	7,499,055	2.05%	1,190
2007-08	6,303	399,362	33,812,244	8.47%	5,364
2008-09	6,303	401,671	32,624,875	8.12%	5,176
2009-10	6,303	404,646	31,497,499	7.78%	4,997

(1) Center for Public Service at the University of Virginia.

(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
2000-01	\$ 1,594,016	\$ 422,967	\$ 2,016,983	\$ 21,270,334	9.48%
2001-02	510,487	354,963	865,450	19,963,786	4.34%
2002-03	550,792	353,304	904,096	18,839,930	4.80%
2003-04	602,218	307,260	909,478	19,427,381	4.68%
2004-05	612,263	276,433	888,696	21,725,332	4.09%
2005-06	872,509	253,748	1,126,257	22,181,164	5.08%
2006-07	643,813	227,480	871,293	22,448,587	3.88%
2007-08	650,800	237,312	888,112	32,076,417	2.77%
2008-09	668,841	894,005	1,562,846	35,256,055	4.43%
2009-10	569,703	1,231,459	1,801,162	22,921,533	7.86%

(1) Includes General fund of the Primary Government and Special Revenue funds of the Discretely Presented Component Unit - School Board.

(2) Excludes bond issuance and other costs.

(3) Excludes refinancing of bond anticipation note.

CITY OF COVINGTON

Computation of Legal Debt Margin

At June 30, 2010

Legal Debt Limit:		
10% of Assessed Value of Taxable Real Estate \$282,219,900	\$	28,221,990
Deduct:		
Debt Payable		16,497,499
Legal Margin for Creation of Additional Debt	\$	<u>11,724,491</u>

CITY OF COVINGTON, VIRGINIA
Schedule of Joint Costs with the County of Alleghany
For the Year Ended June 30, 2010

Expenditures:

Judicial Administration:

Courts:

Circuit court	\$ 74,017
General district court	16,099
Clerk of the circuit court	407,013
Sheriff	398,483

Commonwealth's attorney:

Commonwealth's attorney	476,904
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Public Safety:

Law enforcement and traffic control:

Sheriff	1,673,700
National Forest Patrol	8,877

Correction and detention:

Sheriff	1,806,014
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Courthouse security:

Courthouse security	69,380
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Public Works:

Maintenance of general buildings and grounds:

General properties	80,209
Courthouse HVAC System	7,385
Jail	397,138

Total Expenditures

\$ 5,415,219

Revenues:

General Fund:

Revenues from local sources:

Fines and forfeitures	\$ 65,414
Sales of materials and supplies	3,868

Charges for services:

Correction and detention	1,824
Prisoner payments	15,711
Courthouse maintenance	17,159
SSA bounty payments	2,600
Charges for Commonwealth's attorney and court appointed attorney	1,531
Courthouse security	77,454

Recovered costs:

Salary of Judge's secretary	1,705
Bath Co. Share-Jail	67,138
Care of prisoners - Commonwealth	224,051
Miscellaneous Revenue	3,873
National forest	8,500
Donations K-9	12,850
District court postage	6,103

CITY OF COVINGTON, VIRGINIA
Schedule of Joint Costs with the County of Alleghany
For the Year Ended June 30, 2010

Revenues: (continued)		
General Fund: (continued)		
Revenue from the Commonwealth:		
Categorical aid:		
Shared Expenses:		
Commonwealth's attorney	\$	324,876
Sheriff		1,771,810
Clerk		274,390
Other Categorical Aid:		
Library records grant		4,076
Revenue from the Federal Government:		
DCJS bullet proof vest grant		5,510
DMV grants		9,600
Rural Development grant		41,650
JAG grant		109,298
Total Revenues	\$	<u>3,050,991</u>
Net Expenditures applicable to County and City	\$	<u>2,364,228</u>

	Population	Percent of Total	Total
Allocation:			
County's share of net expenditures	17,215	73.20%	\$ 1,730,615
County's share of audit cost			4,639
Total of County's share			<u>\$ 1,735,254</u>
City's share of net expenditures	6,303	26.80%	\$ 633,613
City's share of audit cost			1,724
Total of City's share			<u>\$ 635,337</u>

Reconciliation of Account with County	General	Magistrate	Probation	Total
Balance due to County (City) at July 1, 2009	\$ 26,232	\$ 885	\$ 840	\$ 27,957
Less:				
Remittances by City based on budget estimates for FY 2010	(570,176)	(2,875)	(2,857)	(575,908)
City's share of expenditures	635,337	2,764	2,489	640,590
Balance due to County (City) at June 30, 2010	<u>\$ 91,393</u>	<u>\$ 774</u>	<u>\$ 472</u>	<u>\$ 92,639</u>

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the City of Covington, Virginia's basic financial statements and have issued our report thereon dated January 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Covington, Virginia's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Virginia's internal control over financial reporting.

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 City of Covington, Virginia's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting [2010-1]. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Covington, Virginia's financial statements are free of 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*.

The City of Covington, Virginia's response to the finding identified in our audit is described in the accompanying schedule of findings, responses and questioned costs. We did not audit the City of Covington, Virginia's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the City of Covington, Virginia in a separate letter dated January 12, 2011.

This report is intended solely for the information and use of members of the City Council, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Turner, & Associates

Christiansburg, Virginia
January 12, 2011

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 Independent Auditors' Report

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

Compliance

We have audited the City of Covington, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Covington, Virginia's major federal programs for the year ended June 30, 2010. The City of Covington, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Covington, Virginia's management. Our responsibility is to express an opinion on the City of Covington, Virginia's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of the City of Covington, Virginia's compliance with those requirements.

As described in item 2010-2 in the accompanying schedule of findings and questioned costs, the City of Covington, Virginia did not comply with requirements regarding reporting that is applicable to its Title I-Grants to Local Educational Agencies-ARRA-CFDA No. 84.389, State Fiscal Stabilization Fund-ARRA-CFDA No. 84.394, Special Education Grants to States (Title VI-B)-ARRA-CFDA No. 84.391, and Special Education-Preschool Grants-ARRA-CFDA No. 84.392. Compliance with such requirements is necessary, in our opinion, for the City of Covington, Virginia to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Covington, Virginia complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of the City of Covington, Virginia is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Covington, Virginia's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the

effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Covington, Virginia's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-2 to be material weaknesses.

The City of Covington, Virginia's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Covington, Virginia's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Finner, & Associates

Christiansburg, Virginia
January 12, 2011

CITY OF COVINGTON, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE:			
Pass Through Payments:			
State Department of Agriculture:			
School Nutrition Cluster:			
Food Distribution-Schools (Note 3)	10.555	Not applicable	\$ 15,518
Department of Education:			
School Nutrition Cluster:			
National School Lunch Program	10.555	40623	175,325
School Breakfast Program	10.553	40591	61,160
Total Department of Agriculture			<u>\$ 252,003</u>
DEPARTMENT OF EDUCATION:			
Pass Through Payments:			
Department of Education:			
Title I Cluster:			
Title I - Grants to Local Educational Agencies	84.010	42901, 42999	\$ 228,863
ARRA - Title I - Grants to Local Educational Agencies	84.389	42913	46,764
Special Education Cluster:			
Special Education - Grants to States (Title VI-B)	84.027	43071	174,216
ARRA - Special Education - Grants to States (Title VI-B)	84.391	61245	119,328
Special Education - Preschool Grants	84.173	62521	10,273
ARRA - Special Education - Preschool Grants	84.392	61247	5,898
Career and Technical Education - Basic Grants to States	84.048	61095	17,219
Safe and Drug-Free Schools and Communities - State Grants	84.186	60511	4,002
Education Technology Cluster:			
Education Technology State Grants	84.318	61600	4,626
ARRA - Education Technology State Grants	84.386	60897	5,624
ARRA - State Fiscal Stabilization Fund (SFSF)-Education State Grants	84.394	62532	526,656
Reading First State Grants	84.357	60655	11,341
Improving Teacher Quality - State Grants	84.367	61480	62,408
Total Department of Education			<u>\$ 1,217,218</u>
DEPARTMENT OF JUSTICE:			
Pass Through Payments:			
Compensation Board:			
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	09SUB9033	\$ 1,910
Department of Criminal Justice Services:			
Crime Victim Assistance	16.575	09VAGX0007	37,880
Total Department of Justice			<u>\$ 39,790</u>
DEPARTMENT OF HOMELAND SECURITY:			
Pass Through Payments:			
Department of Emergency Management:			
State Homeland Security Program	97.073	52707	\$ 21,900
Emergency Management Performance Grant	97.042	52749	9,346
Total Department of Homeland Security			<u>\$ 31,246</u>
DEPARTMENT OF TRANSPORTATION:			
Pass Through Payments:			
Department of Motor Vehicles:			
Alcohol Open Container Requirements	20.607	154AL-2009 59163 3462 154AL-2010 50374 3994	\$ 4,360
Surface Transportation Infrastructure - Discretionary Grants for Capital Investments	20.933	EN02-107-152, PE101, RW201, C501	34,430
Total Department of Transportation			<u>\$ 38,790</u>

CITY OF COVINGTON, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
ENVIRONMENTAL PROTECTION AGENCY:			
Pass Through Payments:			
Virginia Resource Authority:			
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	VCWSTG512	\$ 38,564
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass Through Payments:			
Department of Social Services:			
Promoting Safe and Stable Families	93.556	90359, 90360, 90361	\$ 10,533
Temporary Assistance for Needy Families (TANF)	93.558	90603, 90365	2,874
Child Care and Development Cluster:			
Child Care and Development Block Grant	93.575	90544, 90545	30,758
ARRA - Child Care and Development Block Grant	93.713	90529, 90540, 90541, 90545	12,085
Child Care Mandatory and Matching Funds of the Care and Development Fund	93.596	90529, 90540, 90541	7,857
Chafee Education and Training Vouchers Program	93.599	90353	1,021
Foster Care - Title IV-E	93.658	90636, 90639	93,574
ARRA - Foster Care - Title IV-E	93.658	90636, 90639	11,603
Adoption Assistance	93.659	90606	35,021
ARRA - Adoption Assistance	93.659	90606	4,343
Social Services Block Grant	93.667	90338, 90340, 90358, 90379	33,234
Chafee Foster Care Independence Program	93.674	90356	1,463
Total Department of Health and Human Services			<u>\$ 244,366</u>
Total Expenditures of Federal Awards			<u>\$ 1,861,977</u>

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, 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Covington, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Covington, Virginia.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

NOTE 3--FOOD DISTRIBUTION:

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2010, the Covington City School Board held food commodities totaling \$6,077 in inventory.

NOTE 4 -- RELATIONSHIP TO THE FINANCIAL STATEMENTS:

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

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General Fund	\$ 354,192
Sewer Fund	38,564

Total primary government:	\$ 392,756
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Component Unit Schools:

School Operating Fund	\$ 1,469,221
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Total Federal Expenditures per Basic Financial Statements	<u>\$ 1,861,977</u>
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City of Covington, Virginia

Schedule of Findings, Responses and Questioned Costs
Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
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?	Yes
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	Yes

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.137/84.391/84.392	Special Education Cluster
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants

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

Schedule of Findings, Responses and Questioned Costs Year Ended June 30, 2010

Section II - Financial Statement Findings

2010-1	
Criteria:	A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.
Condition:	The City lacks proper segregation of duties over the following functions: Collections in the Treasurer's office and Accounts Payable and Payroll processes.
Effect of Condition:	There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.
Cause of Condition:	The City lacks the funding to fully support a completely segregated finance department.
Recommendation:	Management should further try to segregate duties amongst current staff to help alleviate risk created by improper segregation of duties.
Management's Response:	Management acknowledges that internal controls over the functions listed above lack proper segregation of duties and is considering ways to improve its segregation of duties over its accounts payable and payroll processes. In addition, the City acknowledges that the Treasurer's office lacks proper segregation of duties, however, to alleviate same would require additional staff. Due to cost constraint, the City has decided not to address the aforementioned internal control deficiency.

Section III - Federal Award Findings and Questioned Costs

Title I – Grants to Local Educational Agencies – ARRA – CFDA No. 84.389, State Fiscal Stabilization Fund – ARRA – CFDA No. 84.394, Special Education Grants to States (Title VI-B) – ARRA – CFDA No. 84.391 Special Education – Preschool Grants – ARRA – CFDA No. 84.392	
2010-2	
Statement of Condition:	Reporting: A review of the ARRA Jobs Report Submissions disclosed the School Board had not submitted any reports.
Criteria:	The School Board should comply with reporting requirements and submit required reports.
Cause:	Due to the lack of diligence in complying with reporting requirements.
Effect:	The School Board failed to receive June's reimbursement request, as it was denied by the state for
Recommendation:	Going forward the School Board should file all necessary and required reports.
Management's Response:	Management acknowledges that it failed to submit the proper reports and will begin to do so.

Section IV - Status of Prior Audit Findings and Questioned Costs

The 2010-1 is recurring in the current year. There were no federal findings and questioned costs in the prior year.