

CITY OF COVINGTON, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2025

**CITY OF COVINGTON, VIRGINIA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

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INTRODUCTORY SECTION

CITY OF COVINGTON, VIRGINIA

CITY COUNCIL

	William E. "Lance" Carson, Jr., Mayor	
Fred F. Forbes III, Vice-Mayor		Raymond C. Hunter
Susan S. Wolfe		Susan S. Crowder

OTHER OFFICIALS

City Manager	Allen L. Dressler
City Finance Director	David Bryant, Jr.
City Attorney	Mark C. Popovich
Commissioner of the Revenue	Cathy M. Kimberlin
City Treasurer	Gisela Roldan
Chief of Police.....	Christopher J. Smith

FINANCIAL SECTION



Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of and for the year ended June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Covington, Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Change in Accounting Principles

As described in Note 21 to the financial statements, in 2025, the City adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinions are not modified with respect to this matter.

Restatement and/or Adjustment of Beginning Balances

As described in Note 21 to the financial statements, in 2025, the City restated beginning balances to reflect the requirements of GASB Statement No. 101. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Covington, Virginia's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Covington, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Covington, Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Covington, Virginia's basic financial statements. The accompanying individual fund financial schedule and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial schedule and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical information but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2025 on our consideration of City of Covington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other

matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Covington, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Covington, Virginia's internal control over financial reporting and compliance.

Polina, Javer, Lopez Associates

Blacksburg, Virginia
December 2, 2025

CITY OF COVINGTON MANAGEMENT’S DISCUSSION AND ANALYSIS FISCAL YEAR 2025 (JULY 1, 2024 – JUNE 30, 2025)

As staff of the City of Covington, we offer readers of the City of Covington’s financial statements this narrative overview and analysis of the financial activities of the City of Covington for the fiscal year ended June 30, 2025.

Financial Highlights

- In Governmental Activities, the assets and deferred outflows of resources of the City of Covington exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$22,442,551 “total net position”.
- At the close of the current fiscal year, the City of Covington’s governmental funds reported an unassigned general fund balance of \$15,381,049.
- At the close of the current fiscal year, the City of Covington’s General Fund reported total fund balances of \$15,787,032.
- At the end of the current fiscal year, the General Fund unassigned fund balance was 63.67% of revenue which is above (good) the adopted policy of 18% and 54.61% of expenditures (good) in the General Fund for FY 25. Included in the \$15,381,049 unassigned general fund balance are funds totaling \$1,627,128 that will become carryover funds that will be re-appropriated and utilized in FY 2026.

- **Overview of the Financial Statements**

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

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

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

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

Both government-wide financial statements distinguish functions of the City of Covington that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the City of Covington include general government administration, judicial administration, public safety, public works, health and welfare, education, parks recreation and cultural activity, and community development. The business-type activities of the City of Covington include Enterprise activities in water, sewer, and solid waste.

The government-wide financial statements include the City of Covington (known as the primary government) and no longer includes a separate school system since schools are consolidated with Alleghany County. The water, sewer, and solid waste functions are departments of the City of Covington and therefore have been included as an integral part of the primary government.

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

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

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

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

The basic governmental fund financial statements can be found on Exhibits 3-6 of this report.

Proprietary Funds: The City of Covington maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Covington uses enterprises funds to account for its Water, Sewer, and Solid Waste operations.

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

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

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

Government-wide Overall Financial Analysis

As noted earlier, total net position over time may serve as a useful indicator of a government's financial position. In the case of the City of Covington, assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$31,269,913 at the close of the most recent fiscal year.

City of Covington's Net Position Statement of Net Position For the Year Ended June 30, 2025 and June 30, 2024

	Governmental Activities		Business-Type Activities		Total	
	<u>2025</u>	<u>2024*</u>	<u>2025</u>	<u>2024*</u>	<u>2025</u>	<u>2024*</u>
Assets:						
Current and other assets	\$ 20,501,103	21,362,478	\$ 5,607,773	6,436,946	\$ 26,108,876	27,799,424
Capital assets	30,532,109	29,013,823	29,413,862	30,716,736	59,945,971	59,730,559
Total Assets	\$ 51,033,212	50,376,301	\$ 35,021,635	37,153,682	\$ 86,054,847	87,529,983
Deferred Outflows						
of Resources	\$ 1,838,088	1,045,088	\$ 401,324	151,811	\$ 2,239,412	1,196,899
Liabilities:						
Current liabilities	\$ 3,711,912	5,237,359	\$ 2,096,367	2,348,065	\$ 5,808,279	7,585,424
Long-term liabilities	22,899,994	21,011,062	24,140,246	24,287,703	47,040,240	45,298,765
Total Liabilities	\$ 26,611,906	26,248,421	\$ 26,236,613	26,635,768	\$ 52,848,519	52,884,189
Deferred Inflows						
of Resources	\$ 3,816,843	4,300,854	\$ 358,984	540,956	\$ 4,175,827	4,841,810
Net Position:						
Net investment						
in capital assets	\$ 8,895,594	6,698,493	\$ 12,958,079	12,912,009	\$ 21,853,673	19,610,502
Restricted	517,927	1,541,466	764,544	732,947	1,282,471	2,274,413
Unrestricted	13,029,030	12,632,155	(4,895,261)	(3,516,187)	8,133,769	9,115,968
Total Net Position	\$ 22,442,551	20,872,114	\$ 8,827,362	10,128,769	\$ 31,269,913	31,000,883

*Provisions of Statement No. 101 from the Governmental Accounting Standards Board (GASB) were implemented during fiscal year 2025. Financial information for the fiscal year has not been restated for the provision of this standard.

The City of Covington's net position reflects \$59,945,971 in capital assets and its net investment in capital assets of \$21,853,673 (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City of Covington uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City of Covington's investment in capital assets is reported net of related debt, it should be noted that the sources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Covington's net position represents sources that are subject to external restrictions on how they may be used. These restrictions total \$1,282,471 and are comprised of \$219,144 of unspent grants and \$1,063,327 restricted for debt service and bond covenant in the Business-Type Activities, the City owned Cemetery and Opioid Abatement Funds.

City of Covington's Statement of Activities
Statement of Activities
June 30, 2025 and June 30, 2024

	Governmental Activities		Business Type Activities		Total	
	2025	2024*	2025	2024*	2025	2024*
Revenues:						
Program revenues:						
Charges for services	649,012	403,574	\$ 5,477,074	5,016,873	\$ 6,126,086	5,420,447
Operating grants & contributions	3,749,940	6,775,218	220,000		3,969,940	6,775,218
Capital grants & contributions	525,378	412,184	338,463	533,037	863,841	945,221
General revenues:						
General property taxes	11,289,259	10,782,423			11,289,259	10,782,423
Other taxes	4,838,612	4,652,872			4,838,612	4,652,872
Unrestricted revenues from use of money and property	728,350	841,683	31,599	35,304	759,949	876,987
Grants and contributions not restricted to specific programs	759,480	776,119			759,480	776,119
Miscellaneous	559,828	1,150,587	23,211	27,375	583,039	1,177,962
Total revenues	\$ 23,099,859	25,794,660	\$ 6,090,347	5,612,589	\$ 29,190,206	31,407,249
Expenses:						
General government Administration	2,158,669	2,160,229	\$ 0	0	\$ 2,158,669	2,160,229
Public Safety	5,198,459	5,001,677	0	0	5,198,459	5,001,677
Public Works	3,871,718	4,002,548	0	0	3,871,718	4,002,548
Education	3,254,614	3,172,084	0	0	3,254,614	3,172,084
Culture and Recreation	2,015,887	2,300,030	0	0	2,015,887	2,300,030
Interest on long-term debt	700,338	630,985	0	0	700,338	630,985
Judicial Administration	348,741	372,882	0	0	348,741	372,882
Health and Welfare	2,361,958	1,831,987	0	0	2,361,958	1,831,987
Community Development	1,703,734	2,346,172	0	0	1,703,734	2,346,172
Water	0	0	2,009,985	1,825,317	2,009,985	1,825,317
Sanitation	0	0	1,917,550	1,954,099	1,917,550	1,954,099
Solid Waste	0	0	3,142,022	2,848,503	3,142,022	2,848,503
Total expenses	\$ 21,614,118	21,818,594	\$ 7,069,557	6,627,919	\$ 28,683,675	28,446,513
Increase (decrease) in net position	\$ 1,485,741	3,976,066	\$ -979,210	-1,015,330	\$ 506,531	2,960,736
Transfers	298,556	475,193	-298,556	-475,193	0	0
Increase (decrease) in net position	\$ 1,784,297	4,451,263	\$ -1,277,766	-1,490,523	\$ 506,531	2,960,740
Net Position - beginning	20,658,254	16,420,851	10,105,128	11,619,292	30,763,382	28,040,143
Ending net position	\$ 22,442,551	20,872,114	\$ 8,827,362	10,128,769	\$ 31,269,913	31,000,883

*Provisions of Statement No. 101 from the Governmental Accounting Standards Board (GASB) were implemented during fiscal year 2025. Financial information for the fiscal year has not been restated for the provision of this standard.

Governmental Activities: During the current fiscal year, Net Position for Governmental Activities increased \$1,784,297 from the prior fiscal year for an ending balance of \$22,442,551 based on beginning of fiscal year Net Position of \$20,658,254.

Business-type Activities: For the City of Covington’s business-type activities, the results for the current fiscal years are reduced as overall net position decreased to reach an ending balance of \$8,827,362. The total decrease in net position for business-type activities (water, sewer, and solid-waste) was (\$1,277,766) compared to the prior fiscal year.

Financial Analysis of Governmental Funds

As noted earlier, the City of Covington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City of Covington’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Covington’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Covington itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Covington’s Council.

At June 30, 2025, the City of Covington’s total governmental funds reported total fund balances of \$16,003,957. Of this amount, \$15,381,049 constitutes unassigned fund balance which increased \$210,336 from the previous fiscal year. The unassigned fund balance is available at the discretion of city council for use as deemed necessary. The remainder of the fund balance is:

The General Fund is the chief operating fund of the City of Covington. As a measure of the General Fund liquidity, it may be useful to compare unassigned fund balance to total general fund revenues. Unassigned fund balance represents approximately 63.67% of that same amount.

Proprietary Funds: The City of Covington’s proprietary funds (Utility Fund) provide the same type of information found in the government-wide financial statements, but in more detail. The Water Fund finished FY25 with \$6,388,947 in total net position while Sewer Fund finished at \$10,038,352 in total net position, and the Solid-Waste Fund finished at (\$7,599,937) which was driven by debt related to new cell construction, new landfill equipment, and closure/post closure estimates. Closure/post closure dedicated funding continued as part of the FY25 budget process as well for the Solid-Waste Fund.

General Fund Budgetary Highlights

During the year the budgetary expenditures in the general Fund were amended was mainly due to new and non-completion of projects related to public works projects (transportation enhancement), fire programs, housing jail prisoners as a joint service expenditure, and project carryovers which have corresponding revenue streams.

Positive local revenue budget variances were greatest realized in total general property taxes, total other local taxes and revenue from Use of Money & Property. For more detailed revenue and expenditure information, please see Schedule 1 and Schedule 2.

Review of actual revenues, expenditures and transfers indicates that actual revenues for the General Fund were \$24,328,592, including transfers and expenditures for the General Fund were \$28,165,075.

Capital Assets and Debt Administration

Capital Assets: The City of Covington’s investment in capital assets for its governmental and business-type activities as of June 30, 2025, were \$59,945,971 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, the water treatment plant, the wastewater treatment plant, and the Peter’s Mountain landfill.

The city’s total capital assets as of June 30, 2025, were \$30,532,109 in Governmental Activities and \$29,413,862 in Business Type (Enterprise) Activities. For the sixth year, Solid-Waste Services (Landfill) are included in Business Type Activities as well as Water and Wastewater (Sewer) Services.

Please see additional information on the City of Covington’s Capital Assets that can be found in Note 13 of this report.

Summary of Capital Assets for Governmental & Business Type Activities

As of June 30, 2025 and June 30, 2024

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land	\$ 2,036,865	\$ 2,036,865	\$ -	\$ -	\$ 2,036,865	\$ 2,036,865
Buildings and improvements	17,567,886	18,214,898	-	-	17,567,886	18,214,898
Improvements other than buildings	-	-	-	-	-	-
Machinery and equipment	2,790,317	3,504,281	2,538,011	2,281,990	5,328,328	5,786,271
Infrastructure	3,944,246	3,607,215	26,541,649	20,318,322	30,485,895	23,925,537
Construction in progress	3,964,896	1,347,372	334,202	8,116,424	4,299,098	9,463,796
Right to use assets Mach. & Equip	376,479	376,479			376,479	376,479
Accumulated Amortization	(148,580)	(73,287)			(148,580)	(73,287)
Total	\$ 30,532,109	\$ 29,013,823	\$ 29,413,862	\$ 30,716,736	\$ 59,945,971	\$ 59,730,559

Debt Administration

The City of Covington’s total debt and liability by the end of FY25 decreased driven by significant projected decreases in Net Pension Liability. Additional detailed information on these costs can be found in Note #7.

The Primary Government has “other liability” related Compensated Absences, Other Post-Employment Benefits (OPEB), and Net Pensions Liability as documented in the chart below. Pension contributions are budgeted annually and administered by the Virginia Retirement System.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the assessed value of taxable real estate. The current debt limit for the City of Covington is \$35,549,310 with General Obligation debt currently at \$21,453,738. As of June 30, 2025, the legal debt margin stands at \$14,095,572.

Per Note 7 - Long-Term Obligations:

Summary of Outstanding Debt

For the Year Ended June 30, 2025 and June 30, 2024

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
General Obligation Refunding Bonds	\$ 13,430,500	\$ 13,351,483	\$ -	\$ -	\$ 13,430,500	\$ 13,351,483
Bond Premiums	538,238	615,987	134,362	151,887	672,600	767,874
Literary Loans	7,485,000	7,985,000	-	-	7,485,000	7,985,000
Revenue Bonds	-	-	15,717,604	16,650,061	15,717,604	16,650,061
Finance Purchase	470,285	678,654	489,481	649,151	959,766	1,327,805
Landfill Closure/Post Closure Liability	-	-	8,525,583	7,777,653	8,525,583	7,777,653
Leases Payable	242,542	312,785	-	-	242,542	312,785
Compensated Absences	556,383	548,123	79,420	85,761	635,803	633,884*
Net OPEB Liabilities	508,584	513,826	157,004	162,407	665,588	676,233
Net Pension Liability	2,005,855	1,258,602	592,404	382,626	2,598,259	1,641,228
Total	\$ 25,237,387	\$ 25,264,460	\$ 25,695,858	\$ 25,859,546	\$ 50,933,245	\$ 51,124,006

*Compensated absences are being restated to reflect GASB 101 for comparison purposes.

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect the City of Covington and were considered in developing the 2026 Fiscal Year Budget:

- As of June 30, 2025, the City of Covington's unemployment rate was at 5.0% per VEC reporting.
- The unassigned surplus is up \$210,336 in FY25, but the overall surplus was \$16,003,957 in FY25 which is down \$851,154 from FY24's balance of \$16,855,111. This was due to less grant funding received.
- The net investment in capital assets increased in FY25 to \$21,853,673 from \$19,610,502 in FY24
- The net position increased \$215,412 in FY25 from FY24
- There were rate increases in Business-Type Activity Funds in Water, Sewer and Landfill. The water had an increase of \$2.00; the sewer had an increase of \$4.00 and the landfill had an increase of \$4.00 in the FY 2026 Budget.
- Real Estate Taxes per \$100.00 of value remained the same \$0.85 in the FY 26 budget and remains one of the lowest rates in Virginia for an independent city that also provides full governmental services and a joint school system.
- The FY 26 General Fund revenue budget was increased in strategic areas based on projected revenues anticipated and expenditures reduced accordingly. No major impacts to services and small improvements anticipated as additional funds are available as projects are finalized.
- In FY26, the city budgeted \$750,000 for additional paving needs; \$100,000 for regular sidewalk improvements and an additional \$50,000 for brick sidewalk improvements.
- Economic development is taking place downtown with Olde Town Covington approaching the "Main Street USA" designation.

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

Basic Financial Statements

City of Covington, Virginia
Statement of Net Position
June 30, 2025

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,434,188	\$ 3,926,722	\$ 13,360,910
Investments	6,000,000	-	6,000,000
Receivables (net of allowance for uncollectibles):			
Taxes receivable	3,379,872	-	3,379,872
Other local taxes receivable	269,116	-	269,116
Accounts receivable	136,337	632,436	768,773
Notes receivable	49,686	-	49,686
Due from other governmental units	1,132,265	284,071	1,416,336
Prepaid items	99,639	-	99,639
Restricted assets:			
Cash and cash equivalents	-	764,544	764,544
Capital assets not being depreciated/amortized:			
Land	2,036,865	-	2,036,865
Construction in progress	3,964,896	334,202	4,299,098
Capital assets, net of accumulated depreciation/amortization:			
Buildings and improvements	17,567,886	-	17,567,886
Machinery and equipment	2,790,317	1,124,253	3,914,570
Lease machinery and equipment	227,899	-	227,899
Infrastructure	3,944,246	27,955,407	31,899,653
Total Assets	<u>\$ 51,033,212</u>	<u>\$ 35,021,635</u>	<u>\$ 86,054,847</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	\$ 429,201	\$ -	\$ 429,201
Pension related items	1,315,512	373,541	1,689,053
OPEB related items	93,375	27,783	121,158
Total Deferred Outflows of Resources	<u>\$ 1,838,088</u>	<u>\$ 401,324</u>	<u>\$ 2,239,412</u>
LIABILITIES			
Accounts payable	\$ 894,919	\$ 189,640	\$ 1,084,559
Accrued liabilities	218,285	55,986	274,271
Unearned revenue	7,725	-	7,725
Customers' deposits	-	254,486	254,486
Accrued interest payable	253,590	40,643	294,233
Noncurrent liabilities:			
Due within one year	2,337,592	1,573,137	3,910,729
Due in more than one year	22,899,795	24,122,721	47,022,516
Total Liabilities	<u>\$ 26,611,906</u>	<u>\$ 26,236,613</u>	<u>\$ 52,848,519</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - property taxes	\$ 2,833,500	\$ -	\$ 2,833,500
Pension related items	621,920	247,412	869,332
OPEB related items	361,423	111,572	472,995
Total Deferred Inflows of Resources	<u>\$ 3,816,843</u>	<u>\$ 358,984</u>	<u>\$ 4,175,827</u>
NET POSITION			
Net investment in capital assets	\$ 8,891,158	\$ 12,958,079	\$ 21,849,237
Restricted nonexpendable:			
Cemetery care	116,076	-	116,076
Restricted expendable:			
Grants	219,144	-	219,144
Debt Service	-	764,544	764,544
Opioid settlement funds	182,707	-	182,707
Unrestricted (deficit)	13,033,466	(4,895,261)	8,138,205
Total Net Position (deficit)	<u>\$ 22,442,551</u>	<u>\$ 8,827,362</u>	<u>\$ 31,269,913</u>

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, 2025

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 2,158,669	\$ -	\$ 226,644	\$ -	\$ (1,932,025)	\$ (1,932,025)	
Judicial administration	348,741	2,129	-	-	(346,612)	(346,612)	
Public safety	5,198,459	536,022	508,050	208,030	(3,946,357)	(3,946,357)	
Public works	3,871,718	9,587	1,570,929	14,482	(2,276,720)	(2,276,720)	
Health and welfare	2,361,958	-	1,434,203	-	(927,755)	(927,755)	
Education	3,254,614	-	-	-	(3,254,614)	(3,254,614)	
Parks, recreation, and cultural	2,015,887	101,074	4,500	252,866	(1,657,447)	(1,657,447)	
Community development	1,703,734	200	5,614	50,000	(1,647,920)	(1,647,920)	
Interest on long-term debt	700,338	-	-	-	(700,338)	(700,338)	
Total governmental activities	\$ 21,614,118	\$ 649,012	\$ 3,749,940	\$ 525,378	\$ (16,689,788)	\$ (16,689,788)	
Business-type activities:							
Water	\$ 2,009,985	\$ 2,188,932	\$ 220,000	\$ -	\$ 398,947	\$ 398,947	
Sewer	1,917,550	1,792,086	-	338,463	212,999	212,999	
Solid Waste	3,142,022	1,496,056	-	-	(1,645,966)	(1,645,966)	
Total business-type activities	\$ 7,069,557	\$ 5,477,074	\$ 220,000	\$ 338,463	\$ (1,034,020)	\$ (1,034,020)	
Total primary government	\$ 28,683,675	\$ 6,126,086	\$ 3,969,940	\$ 863,841	\$ (16,689,788)	\$ (17,723,808)	
General revenues:							
General property taxes					\$ 11,289,259	\$ -	\$ 11,289,259
Other local taxes:							
Local sales and use taxes					1,786,313	-	1,786,313
Consumers' utility taxes					554,440	-	554,440
Consumption taxes					24,155	-	24,155
Business license taxes					630,740	-	630,740
Motor vehicle licenses					185,518	-	185,518
Bank stock taxes					255,066	-	255,066
Recordation taxes					10,107	-	10,107
Hotel and motel room taxes					44,070	-	44,070
Restaurant food taxes					1,262,598	-	1,262,598
Tobacco taxes					85,605	-	85,605
Unrestricted revenues from use of money					728,350	31,599	759,949
Miscellaneous					559,828	23,211	583,039
Grants and contributions not restricted to specific programs					759,480	-	759,480
Transfers					298,556	(298,556)	-
Total general revenues and transfers					\$ 18,474,085	\$ (243,746)	\$ 18,230,339
Change in net position					\$ 1,784,297	\$ (1,277,766)	\$ 506,531
Net position - beginning, as previously reported					\$ 20,872,114	\$ 10,128,769	\$ 31,000,883
Restatement due to adoption of new accounting principle					(213,860)	(23,641)	(237,501)
Net position - beginning, as restated					\$ 20,658,254	\$ 10,105,128	\$ 30,763,382
Net position - ending					\$ 22,442,551	\$ 8,827,362	\$ 31,269,913

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

City of Covington, Virginia
Balance Sheet
Governmental Funds
June 30, 2025

	<u>General</u>	<u>City Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 9,221,699	\$ 96,413	\$ 116,076	\$ 9,434,188
Investments	6,000,000	-	-	6,000,000
Receivables (net of allowance for uncollectibles):				
Taxes receivable	3,379,872	-	-	3,379,872
Other local taxes receivables	269,116	-	-	269,116
Accounts receivable	136,337	-	-	136,337
Notes receivable	49,686	-	-	49,686
Intergovernmental receivable	1,132,265	-	-	1,132,265
Prepaid items	95,203	4,436	-	99,639
Total assets	<u>\$ 20,284,178</u>	<u>\$ 100,849</u>	<u>\$ 116,076</u>	<u>\$ 20,501,103</u>
LIABILITIES				
Accounts payable	\$ 894,919	\$ -	\$ -	\$ 894,919
Accrued liabilities	218,285	-	-	218,285
Unearned revenue	7,725	-	-	7,725
Total liabilities	<u>\$ 1,120,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,120,929</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	\$ 3,235,460	\$ -	\$ -	\$ 3,235,460
Unavailable revenue - opioid settlement	140,757	-	-	140,757
Total deferred inflows of resources	<u>\$ 3,376,217</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,376,217</u>
FUND BALANCES				
Nonspendable:				
Prepaid items	\$ 95,203	\$ 4,436	\$ -	\$ 99,639
Cemetery care	-	-	116,076	116,076
Note receivable	49,686	-	-	49,686
Restricted:				
Opioid settlement	41,950	-	-	41,950
Grants	219,144	-	-	219,144
Capital projects	-	96,413	-	96,413
Unassigned	15,381,049	-	-	15,381,049
Total fund balances	<u>\$ 15,787,032</u>	<u>\$ 100,849</u>	<u>\$ 116,076</u>	<u>\$ 16,003,957</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 20,284,178</u>	<u>\$ 100,849</u>	<u>\$ 116,076</u>	<u>\$ 20,501,103</u>

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

City of Covington, Virginia
 Reconciliation of the Balance Sheet of Governmental Funds
 To the Statement of Net Position
 June 30, 2025

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 16,003,957

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 2,036,865	
Buildings and improvements	17,567,886	
Machinery and equipment	2,790,317	
Lease machinery and equipment	227,899	
Infrastructure	3,944,246	
Construction in progress	<u>3,964,896</u>	30,532,109

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.

Unavailable revenue - property taxes	\$ 401,960	
Unavailable revenue - opioid settlement	<u>140,757</u>	542,717

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

Pension related items	\$ 1,315,512	
OPEB related items	<u>93,375</u>	1,408,887

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

General obligation bonds	\$ (13,430,500)	
Less: Deferred charges on refunding	429,201	
Literary Loans	(7,485,000)	
Finance purchases	(470,285)	
Unamortized premium	(538,238)	
Leases payable	(242,542)	
Compensated absences	(556,383)	
Accrued interest payable	(253,590)	
Net OPEB liabilities	(508,584)	
Net pension liability	<u>(2,005,855)</u>	(25,061,776)

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

Pension related items	\$ (621,920)	
OPEB related items	<u>(361,423)</u>	(983,343)

Net position of governmental activities \$ 22,442,551

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, 2025

	<u>General</u>	<u>City Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
REVENUES				
General property taxes	\$ 11,377,806	\$ -	\$ -	\$ 11,377,806
Other local taxes	4,838,612	-	-	4,838,612
Permits, privilege fees, and regulatory licenses	34,757	-	-	34,757
Fines and forfeitures	7,303	-	-	7,303
Revenue from the use of money and property	716,275	-	12,075	728,350
Charges for services	606,952	-	-	606,952
Miscellaneous	572,911	-	-	572,911
Recovered costs	967,862	-	-	967,862
Intergovernmental:				
Commonwealth	4,785,265	-	-	4,785,265
Federal	249,533	-	-	249,533
Total revenues	<u>\$ 24,157,276</u>	<u>\$ -</u>	<u>\$ 12,075</u>	<u>\$ 24,169,351</u>
EXPENDITURES				
Current:				
General government administration	\$ 2,223,268	\$ -	\$ -	\$ 2,223,268
Judicial administration	348,741	-	-	348,741
Public safety	4,847,793	-	-	4,847,793
Public works	3,874,393	-	-	3,874,393
Health and welfare	2,512,082	-	-	2,512,082
Education	3,499,359	-	-	3,499,359
Parks, recreation, and cultural	2,067,348	-	-	2,067,348
Community development	309,011	-	-	309,011
Nondepartmental	3,137,077	-	-	3,137,077
Capital projects	-	1,061,003	-	1,061,003
Debt service:				
Principal retirement	4,606,612	-	-	4,606,612
Interest and other fiscal charges	726,385	-	-	726,385
Bond issuance costs	13,006	-	-	13,006
Total expenditures	<u>\$ 28,165,075</u>	<u>\$ 1,061,003</u>	<u>\$ -</u>	<u>\$ 29,226,078</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (4,007,799)</u>	<u>\$ (1,061,003)</u>	<u>\$ 12,075</u>	<u>\$ (5,056,727)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 583,914	\$ 238,403	\$ -	\$ 822,317
Transfers out	(412,598)	(111,163)	-	(523,761)
Issuance of general obligation refunding bond	3,011,500	-	-	3,011,500
Issuance of general obligation bond	-	895,517	-	895,517
Total other financing sources (uses)	<u>\$ 3,182,816</u>	<u>\$ 1,022,757</u>	<u>\$ -</u>	<u>\$ 4,205,573</u>
Net change in fund balances	\$ (824,983)	\$ (38,246)	\$ 12,075	\$ (851,154)
Fund balances - beginning	16,612,015	139,095	104,001	16,855,111
Fund balances - ending	<u>\$ 15,787,032</u>	<u>\$ 100,849</u>	<u>\$ 116,076</u>	<u>\$ 16,003,957</u>

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

City of Covington, Virginia
 Reconciliation of Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2025

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

Net change in fund balances - total governmental funds \$ (851,154)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital asset additions	\$ 3,616,485	
Depreciation/amortization expense	<u>(2,098,199)</u>	1,518,286

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

Change in unavailable revenue - property taxes and other local taxes	\$ (88,547)	
Change in unavailable revenue - opioid settlement	<u>(13,083)</u>	(101,630)

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

Issuance of general obligation refunding bonds	\$ (3,011,500)	
Issuance of bond anticipation notes	(895,517)	
Principal Payments:		
General obligation bonds	3,828,000	
Lease liabilities	70,243	
Finance purchases	208,369	
Literary loans	<u>500,000</u>	699,595

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.

Compensated absences	\$ (8,260)	
Amortization of bond premiums	77,749	
Amortization of deferred amount on refundings	(60,283)	
Accrued interest payable	(5,607)	
Change in pension related items	403,170	
Change in OPEB related items	<u>112,431</u>	519,200

Change in net position of governmental activities \$ 1,784,297

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

City of Covington, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2025

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,448,430	\$ 242,846	\$ 1,235,446	\$ 3,926,722
Accounts receivable	211,996	282,755	137,685	632,436
Due from other governmental units	141,175	142,896	-	284,071
Restricted current assets:				
Cash and cash equivalents	440,803	323,741	-	764,544
Total current assets	<u>\$ 3,242,404</u>	<u>\$ 992,238</u>	<u>\$ 1,373,131</u>	<u>\$ 5,607,773</u>
Noncurrent assets:				
Capital assets:				
Utility plant in service	\$ 16,062,091	\$ 31,442,478	\$ 3,204,170	\$ 50,708,739
Accumulated depreciation	(8,372,996)	(11,480,737)	(4,313,357)	(24,167,090)
Machinery and equipment	13,430	242,591	2,281,990	2,538,011
Construction in progress	-	334,202	-	334,202
Total capital assets	<u>\$ 7,702,525</u>	<u>\$ 20,538,534</u>	<u>\$ 1,172,803</u>	<u>\$ 29,413,862</u>
Total assets	<u>\$ 10,944,929</u>	<u>\$ 21,530,772</u>	<u>\$ 2,545,934</u>	<u>\$ 35,021,635</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 134,449	\$ 118,721	\$ 120,371	\$ 373,541
OPEB related items	9,853	8,884	9,046	27,783
Total deferred outflows of resources	<u>\$ 144,302</u>	<u>\$ 127,605</u>	<u>\$ 129,417</u>	<u>\$ 401,324</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 60,471	\$ 114,336	\$ 14,833	\$ 189,640
Wages payable	21,933	15,761	18,292	55,986
Customers' deposits	90,862	100,684	62,940	254,486
Accrued interest payable	29,700	-	10,943	40,643
Compensated absences - current portion	28,453	12,421	18,691	59,565
Loans payable - current portion	-	-	161,402	161,402
Bonds payable - current portion	247,525	852,145	252,500	1,352,170
Total current liabilities	<u>\$ 478,944</u>	<u>\$ 1,095,347</u>	<u>\$ 539,601</u>	<u>\$ 2,113,892</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 3,796,837	\$ 10,180,259	\$ 522,700	\$ 14,499,796
Net OPEB liabilities	58,602	48,200	50,202	157,004
Compensated absences - net of current portion	9,484	4,140	6,231	19,855
Loans payable - net of current portion	-	-	328,079	328,079
Landfill closure/postclosure estimate	-	-	8,525,583	8,525,583
Net pension liability	224,751	180,840	186,813	592,404
Total noncurrent liabilities	<u>\$ 4,089,674</u>	<u>\$ 10,413,439</u>	<u>\$ 9,619,608</u>	<u>\$ 24,122,721</u>
Total liabilities	<u>\$ 4,568,618</u>	<u>\$ 11,508,786</u>	<u>\$ 10,159,209</u>	<u>\$ 26,236,613</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 90,022	\$ 76,986	\$ 80,404	\$ 247,412
OPEB related items	41,644	34,253	35,675	111,572
Total deferred inflows of resources	<u>\$ 131,666</u>	<u>\$ 111,239</u>	<u>\$ 116,079</u>	<u>\$ 358,984</u>
NET POSITION				
Net investment in capital assets	\$ 3,658,163	\$ 9,391,794	\$ (91,878)	\$ 12,958,079
Restricted for debt service and bond covenants	440,803	323,741	-	764,544
Unrestricted	2,289,981	322,817	(7,508,059)	(4,895,261)
Total net position	<u>\$ 6,388,947</u>	<u>\$ 10,038,352</u>	<u>\$ (7,599,937)</u>	<u>\$ 8,827,362</u>

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

City of Covington, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2025

	Enterprise Funds			<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	
OPERATING REVENUES				
Charges for services:				
Water revenues	\$ 2,155,030	\$ -	\$ -	\$ 2,155,030
Sewer revenues	-	1,789,763	-	1,789,763
Penalties	33,902	2,323	7,895	44,120
Waste Collection Disposal	-	-	911,712	911,712
Landfill Charges	-	-	501,106	501,106
Sludge Fees	-	-	64,368	64,368
Closure Fees	-	-	10,975	10,975
Miscellaneous	77	8,331	14,803	23,211
Total operating revenues	<u>\$ 2,189,009</u>	<u>\$ 1,800,417</u>	<u>\$ 1,510,859</u>	<u>\$ 5,500,285</u>
OPERATING EXPENSES				
Salaries and wages	\$ 486,618	\$ 411,599	\$ 399,946	\$ 1,298,163
Fringes	128,289	107,715	135,230	371,234
Contracted services	312,669	214,801	125,830	653,300
Other charges	598,136	431,340	507,381	1,536,857
Purchase of equipment	6,950	21,134	-	28,084
Lease/rent of equipment	276	268	237	781
Depreciation	374,531	730,693	1,149,664	2,254,888
Landfill closure	-	-	794,427	794,427
Total operating expenses	<u>\$ 1,907,469</u>	<u>\$ 1,917,550</u>	<u>\$ 3,112,715</u>	<u>\$ 6,937,734</u>
Operating income (loss)	<u>\$ 281,540</u>	<u>\$ (117,133)</u>	<u>\$ (1,601,856)</u>	<u>\$ (1,437,449)</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	\$ 220,000	\$ -	\$ -	\$ 220,000
Interest income	21,059	10,540	-	31,599
Interest expense	(102,516)	-	(29,307)	(131,823)
Total nonoperating revenues (expenses)	<u>\$ 138,543</u>	<u>\$ 10,540</u>	<u>\$ (29,307)</u>	<u>\$ 119,776</u>
Income (loss) before transfers and capital contributions and grants	<u>\$ 420,083</u>	<u>\$ (106,593)</u>	<u>\$ (1,631,163)</u>	<u>\$ (1,317,673)</u>
Capital contributions and construction grants	\$ -	\$ 338,463	\$ -	\$ 338,463
Transfers in	174,195	1,381,528	-	1,555,723
Transfers out	(1,626,614)	(200,924)	(26,741)	(1,854,279)
Change in net position	<u>\$ (1,032,336)</u>	<u>\$ 1,412,474</u>	<u>\$ (1,657,904)</u>	<u>\$ (1,277,766)</u>
Net position - beginning, as previously reported	\$ 7,432,580	\$ 8,631,846	\$ (5,935,657)	\$ 10,128,769
Restatement due to adoption of new accounting principle	(11,297)	(5,968)	(6,376)	(23,641)
Net position - beginning, as restated	<u>\$ 7,421,283</u>	<u>\$ 8,625,878</u>	<u>\$ (5,942,033)</u>	<u>\$ 10,105,128</u>
Net position - ending	<u>\$ 6,388,947</u>	<u>\$ 10,038,352</u>	<u>\$ (7,599,937)</u>	<u>\$ 8,827,362</u>

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

City of Covington, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2025

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 2,197,851	\$ 1,751,435	\$ 1,552,331	\$ 5,501,617
Payments to suppliers	(928,409)	(670,837)	(696,441)	(2,295,687)
Payments to employees	(686,777)	(604,198)	(604,190)	(1,895,165)
Net cash provided by (used for) operating activities	<u>\$ 582,665</u>	<u>\$ 476,400</u>	<u>\$ 251,700</u>	<u>\$ 1,310,765</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
ACTIVITIES				
Transfers to other funds	\$ (1,626,614)	\$ (200,924)	\$ (26,741)	\$ (1,854,279)
Transfers from other funds	174,195	1,381,528	-	1,555,723
Operating grant from state	78,825	-	-	78,825
Net cash provided by (used for) noncapital financing activities	<u>\$ (1,373,594)</u>	<u>\$ 1,180,604</u>	<u>\$ (26,741)</u>	<u>\$ (219,731)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING				
ACTIVITIES				
Purchase of assets	\$ (13,430)	\$ (1,177,876)	\$ -	\$ (1,191,306)
Principal payments on bonds	(225,000)	(852,145)	(246,800)	(1,323,945)
Principal payments on finance purchases	-	-	(159,670)	(159,670)
Capital grants	-	269,829	-	269,829
Proceeds from indebtedness	-	391,488	-	391,488
Interest payments	(121,284)	-	(32,842)	(154,126)
Net cash provided by (used for) capital and related financing activities	<u>\$ (359,714)</u>	<u>\$ (1,368,704)</u>	<u>\$ (439,312)</u>	<u>\$ (2,167,730)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	\$ 21,059	\$ 10,540	\$ -	\$ 31,599
Net increase (decrease) in cash and cash equivalents	\$ (1,129,584)	\$ 298,840	\$ (214,353)	\$ (1,045,097)
Cash and cash equivalents - beginning (including restricted cash and cash equivalents of \$697,736)	4,018,817	267,747	1,449,799	5,736,363
Cash and cash equivalents - ending (including restricted cash and cash equivalents of \$764,544)	<u>\$ 2,889,233</u>	<u>\$ 566,587</u>	<u>\$ 1,235,446</u>	<u>\$ 4,691,266</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 281,540	\$ (117,133)	\$ (1,601,856)	\$ (1,437,449)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	\$ 374,531	\$ 730,693	\$ 1,149,664	\$ 2,254,888
(Increase) decrease in accounts receivable	6,439	(52,023)	39,469	(6,115)
(Increase) decrease in deferred outflows of resources	(87,463)	(80,465)	(81,585)	(249,513)
Increase (decrease) in customer deposits	2,403	3,041	2,003	7,447
Increase (decrease) in accounts payable	(10,378)	(3,294)	(16,496)	(30,168)
Increase (decrease) in wages payable	(149)	2,502	5,330	7,683
Increase (decrease) in compensated absences	(5,330)	1,524	(2,535)	(6,341)
Increase (decrease) in net OPEB liabilities	2,216	(7,534)	(85)	(5,403)
Increase (decrease) in net pension liability	85,866	56,470	67,442	209,778
Increase (decrease) in closure/postclosure estimate	-	-	747,930	747,930
Increase (decrease) in deferred inflows of resources	(67,010)	(57,381)	(57,581)	(181,972)
Total adjustments	<u>\$ 301,125</u>	<u>\$ 593,533</u>	<u>\$ 1,853,556</u>	<u>\$ 2,748,214</u>
Net cash provided by (used for) operating activities	<u>\$ 582,665</u>	<u>\$ 476,400</u>	<u>\$ 251,700</u>	<u>\$ 1,310,765</u>
Schedule of non-cash capital and related financing activities:				
Purchase of capital assets on account	\$ -	\$ 114,336	\$ -	\$ 114,336

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

City of Covington, Virginia
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2025

	Custodial Funds
	Drug Task Force Fund
ASSETS	
Cash and cash equivalents	\$ 7,398
Total assets	\$ 7,398
LIABILITIES	
Accounts payable	\$ 16
Total liabilities	\$ 16
NET POSITION	
Restricted for:	
Held for drug task force	\$ 7,382
Total net position	\$ 7,382

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

City of Covington, Virginia
 Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 For the Year Ended June 30, 2025

		Custodial Funds
		<u>Drug Task Force Fund</u>
ADDITIONS		
Contribution from Alleghany Highlands Regional Drug Task Force	\$	<u>1,954</u>
Total additions	\$	<u>1,954</u>
DEDUCTIONS		
Task force supplies	\$	<u>1,097</u>
Total deductions	\$	<u>1,097</u>
Net increase (decrease) in fiduciary net position	\$	857
Net position - beginning		<u>6,525</u>
Net position - ending	\$	<u><u>7,382</u></u>

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

CITY OF COVINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2025

Note 1 - Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity

The City of Covington, Virginia is a municipal corporation governed by an elected five-member City Council. The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements 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 City has no discretely presented component units.

Jointly Governed Organizations - The City is represented in the governing body of the Alleghany Highlands Community Service Board, the Charles Pinckney Jones Memorial Library, the Alleghany-Covington Social Services Board, and the Alleghany Highlands Public Schools.

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's contribution during fiscal year 2025 was \$125,000.

The City participates in the Alleghany Highlands Regional Library. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City's contribution during fiscal year 2025 was \$138,607.

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

The City participates in the Alleghany Highlands School Board, a discretely presented component unit of the County of Alleghany, Virginia. The governing body of this organization is appointed by the respective governing bodies. The City's contribution during fiscal year 2025 was \$3,496,359, including \$501,487 in improvements to School Board property. The City also pays debt service on bonds and literary loans issued prior to the formation of joint school system. Principal and interest payments during fiscal year 2025 amounted to \$1,522,354.

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes, and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component unit. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense, the cost of “using up” capital assets, in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they have been earned and 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 principal and interest expenditures on general long-term debt, including lease liabilities, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the government the right to use lease assets, are reports as expenditures in the governmental funds. Issuance of long-term debt and financing through leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in other funds.

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

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

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

The government reports the following nonmajor governmental funds:

The Cemetery Fund (Permanent Fund) accounts for and reports financial resources that are restricted such that only earnings may be used for purposes that support the reporting government's programs (i.e. for the benefit of the government or its citizens). The Cemetery Fund accounts for investments and related earnings which are used to offset the cost of the Cedar Hill Cemetery.

The government reports the following major proprietary funds:

The City operates a sewage collection and treatment plant, a water filtration and distribution system, and a landfill. The activities of the systems are accounted for in the Water, Sewer, and Solid Waste Funds.

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

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

Additionally, the government reports the following fund types:

Fiduciary funds (trust and custodial funds) account for assets held by the government in a trustee capacity or as custodian for individuals, private organizations, other governmental units, or other funds. Fiduciary funds are not included in the government-wide financial statements. The Custodial fund consists of the Drug Task Force Fund.

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

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

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

1. Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the government's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and Collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act").

2. Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, other nonparticipating investments and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

3. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

All trade and property tax receivables are shown net of an allowance for uncollectibles. The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$136,967 at June 30, 2025 and is comprised solely of property taxes.

4. Property Taxes

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

5. Use of Estimates

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

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

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

6. Capital Assets

Capital assets, which include property, plant, equipment, lease and infrastructure assets, 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 (except for intangible right-to-use assets (lease assets), the measurement of which is discussed in more detail below). Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives (or life of the associated contract for lease assets):

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Infrastructure	20-40
Machinery and equipment	4-30
Lease machinery and equipment	4-30

7. Compensated Absences

The City recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee flex spending account) during or upon separation from employment. Based on the criteria listed, two types of leave qualify for liability recognition for compensated absences - vacation and sick leave. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Vacation Leave

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment at the employee's current pay rate upon separation from employment.

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

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

7. Compensated Absences (Continued)

Sick and PTO Leave

The City's policy permits employees to accumulate earned but unused sick and PTO leave. Unused sick and PTO leave is paid out at 25% up to \$5,000 and \$2,500, respectively. In addition, a liability for estimated value of sick and PTO leave that will be used by employees as time off is included in the liability for compensated absences.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

9. Fund Balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called "fund balance." City governmental funds report the following categories of fund balance, based on the nature of any limitation requiring the use of resources for specific purposes:

- Nonspendable fund balance - amounts that are either not in spendable form (such as inventory and prepaid expenditures) or are legally or contractually required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers;
- Committed fund balance - amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the City Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Council adopts another ordinance to remove or revise the limitation;

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

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

9. Fund Balance (Continued)

- Assigned fund balance - amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as committed; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

Committed Fund Balance Policy:

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

Assigned Fund Balance Policy:

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

Minimum Unassigned Fund Balance Policy:

The City will make every effort to maintain an unassigned fund balance in the general fund equal to or greater than 18% expenditures/operating revenues. The City considers a balance of less than 18% to be a cause for concern, barring unusual or deliberate circumstances.

Resource Flow Policy:

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

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditures/expense) until then. The City has two items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the short of the life of the refunded or refunding debt. The other item is comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

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

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

10. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until this time. The City has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes and opioid settlement receivable is reported in the governmental funds balance sheet. The property taxes amount is comprised of uncollected property taxes due prior to June 30, amounts prepaid and outstanding on the 2nd half installments levied during the fiscal year but due after June 30th and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to pension and OPEB are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

11. Pensions

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

12. Other Postemployment Benefits (OPEB)

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

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

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

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

13. Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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

14. Leases

The City leases various assets requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases.

Lessee

The City recognizes lease liabilities and intangible right-to-use lease assets (lease assets) with an initial value of \$5,000, individually or in the aggregate in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Subsequently, the lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

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

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

14. Leases (Continued)

Key Estimates and Judgments

Lease accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate stated in lease contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease and certain periods covered by options to extend to reflect how long the lease is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease incentives and certain other payments are included in the measurement of the lease liability (lessee).

The City monitors changes in circumstances that would require a remeasurement or modification of its leases. The City will remeasure the lease asset and liability (lessee) if certain changes occur that are expected to significantly affect the amount of the lease liability.

Note 2 - Stewardship, Compliance, and Accountability:

A. Budgetary Information

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

1. Prior to May 1, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: General Fund, Solid Waste Management Fund, Water Fund and Sewer Fund.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of two readings of a Budget Appropriations Ordinance.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the City Council can revise the appropriation by function. The City Manager is authorized to transfer budgeted amounts within general government activities or departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

A. Budgetary Information (Continued)

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all City units. The City's practice is to appropriate Capital Projects by Project.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.
9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2025, the Education function had expenditures in excess of appropriations.

C. Deficit Net Position/Fund Equity

A net position deficit of \$7,599,937 exists in the solid waste fund resulting from the landfill closure/post-closure liability. The City is working towards closing the landfill which will require any future transactions to be merged into the City's general fund.

Note 3 - Deposits and Investments:

Deposits

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

Investments

Statutes authorize the City and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard & Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 3 - Deposits and Investments: (Continued)

Investments (Continued)

At June 30, 2024, the City had 1,176 shares of MetLife Trust stock valued at \$69.63 per share for a total value of \$81,881. The City also had 2,677 shares of Truist Financial Corporation stock valued at \$38.85 per share for a total value of \$104,001. During fiscal year 2025, the City sold all shares of MetLife Trust for a gain of \$16,569 and all shares of Truist Financial Corporation for a gain of \$12,075. Both gains were calculated using the June 30, 2024 values.

The City's rated debt investments as of June 30, 2025 were rated by Standard & Poor's and the ratings are presented using the Standard & Poor's rating scale.

<u>City's Rated Debt Investment Values</u>	
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>
	AAAm
State Non-arbitrage Pool (SNAP)	\$ 440,803

The City's interest rate risk as of June 30, 2025:

<u>Interest Rate Risk</u>		
<u>Investment type</u>	<u>Fair Value</u>	<u>Less than 1 yr</u>
State Non-arbitrage Pool (SNAP)	\$ 440,803	\$ 440,803

External Investment Pool

The value of the positions in the external investment pool (State Non-Arbitrage Pool) is the same as the value of the pool shares. As SNAP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. SNAP is an amortized cost basis portfolio. There are no withdrawal limitations or restrictions imposed on participants.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 4 - Fair Value:

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

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

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

The City has the following recurring fair value measurements as of June 30, 2025:

Investment	6/30/2025	Fair Value Measurement Using Quoted Prices in Active Markets for Identical Assets (Level 1)
Certificate of Deposits	\$ 6,000,000	\$ 6,000,000

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 5 - Due from Other Governmental Units:

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

	Primary Government	
	<u>Governmental</u>	<u>Business-type</u>
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 297,523	\$ -
Non-categorical aid	284,755	-
Categorical aid - shared expenses	18,866	-
Categorical aid - Comprehensive Services Act	306,467	-
Categorical aid - VPA	1,605	-
Categorical aid - other	199,692	-
<u>Federal Government:</u>		
Categorical aid - VPA	2,857	-
Categorical aid - other	20,500	284,071
	<u>\$ 1,132,265</u>	<u>\$ 284,071</u>
Totals	<u>\$ 1,132,265</u>	<u>\$ 284,071</u>

Note 6 - Interfund Transfers:

Interfund transfers for the year ended June 30, 2025, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Primary Government:</u>		
General Fund	\$ 583,914	\$ 412,598
City Capital Projects Fund	238,403	111,163
Water Fund	174,195	1,626,614
Sewer Fund	1,381,528	200,924
Solid Waste Fund	-	26,741
Total Primary Government	<u>\$ 2,378,040</u>	<u>\$ 2,378,040</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, 2025

Note 7 - Long-Term Obligations:

Primary Government - Governmental Activities Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2025:

	Balance July 1, 2024 As restated	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2025
Direct borrowings and placements				
General obligation bonds	\$ 13,351,483	\$ 3,907,017	\$ (3,828,000)	\$ 13,430,500
Deferred amounts:				
Premium	615,987	-	(77,749)	538,238
Literary loans	7,985,000	-	(500,000)	7,485,000
Finance purchases	678,654	-	(208,369)	470,285
Total direct borrowings and placements	<u>\$ 22,631,124</u>	<u>\$ 3,907,017</u>	<u>\$ (4,614,118)</u>	<u>\$ 21,924,023</u>
Lease liabilities	312,785	-	(70,243)	242,542
Compensated absences*	548,123	8,260	-	556,383
Net OPEB liabilities	513,826	111,770	(117,012)	508,584
Net pension liability	1,258,602	3,101,674	(2,354,421)	2,005,855
Total	<u>\$ 25,264,460</u>	<u>\$ 7,128,721</u>	<u>\$ (7,155,794)</u>	<u>\$ 25,237,387</u>

* Change in compensated absences is shown net

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

Year Ending June 30,	Direct Borrowings and Placements		Lease liabilities	
	Principal	Interest	Principal	Interest
2026	\$ 1,771,781	\$ 694,040	\$ 76,059	\$ 12,421
2027	1,825,194	639,290	75,633	6,863
2028	1,882,340	581,730	54,978	2,762
2029	1,636,946	518,826	35,872	436
2030	1,705,655	458,807	-	-
2031-2035	5,913,869	1,688,798	-	-
2036-2040	5,070,000	840,779	-	-
2041	1,580,000	33,970	-	-
Totals	<u>\$ 21,385,785</u>	<u>\$ 5,456,240</u>	<u>\$ 242,542</u>	<u>\$ 22,482</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 7 - Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Direct Borrowings and Placements							
GO Refunding Bond	2.47%	9/29/2015	2028	\$159,000-\$210,000 a+	\$ 2,410,000	\$ 619,000	\$ 202,000
VPSA GO Refunding Bond	5.05%-4.30%	11/21/2013	2041	\$90,000-\$1,580,000 a+	11,630,000	7,705,000	500,000
QZAB GO Bond	0.00%	11/30/2016	2031	\$50,000 a-	750,000	350,000	50,000
VRA Go Bond	5.13%	8/4/2021	2037	\$95,000-\$175,000 a+	2,045,000	1,745,000	110,000
Joint Pad - GO Refunding Bond	4.95%	11/14/2024	2035	\$244,708-\$370,075 a+	3,011,500	3,011,500	244,708
Literary Loans	2.00%	2/16/2016	2038	\$425,000-\$645,000 a+	11,645,000	7,485,000	510,000
Finance Purchase - VML/VACo Equip Series	2.17%	10/23/2017	2028	\$293,450-\$323,381 a+	1,568,987	470,285	155,073
Total Direct Borrowings and Placements						\$ 21,385,785	\$ 1,771,781
Deferred Amount:							
Unamortized Premium	n/a	8/4/2021	n/a	n/a	\$ 398,069	\$ 246,831	\$ 43,552
Unamortized Premium	n/a	11/21/2013	n/a	n/a	496,278	291,407	28,913
Total Deferred Amounts						\$ 538,238	\$ 72,465
Lease Liabilities:							
Enterprise Unit #3988	10.63%	4/1/2022	2027	\$785 b	\$ 36,724	\$ 14,979	\$ 8,218
Enterprise Unit #1669	10.63%	4/1/2022	2027	\$787 b	36,842	15,026	8,244
Enterprise Unit #5602	10.19%	4/1/2022	2027	\$690 b	32,651	13,237	7,275
Enterprise Unit #0840	12.71%	1/1/2023	2028	\$868 b	38,816	22,215	8,054
Enterprise Unit #7783	15.99%	12/1/2023	2029	\$890 b	37,095	27,974	6,683
Datapatch Tower Lease	2.00%	4/1/2024	2029	\$3,270 b	194,351	149,111	37,585
Total Lease Liabilities						\$ 242,542	\$ 76,059
Other Obligations:							
Compensated Absences						\$ 556,383	\$ 417,287
Net OPEB Liabilities						508,584	-
Net pension liability						2,005,855	-
Total Other Obligations						\$ 3,070,822	\$ 417,287
Total Long-Term Obligations						\$ 25,237,387	\$ 2,337,592

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

(a-) - annual principal installments shown

(a) - annual installment including principal and interest

(b) - monthly installments

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

Collateral for finance purchases and leases is the underlying assets. Default provisions for finance purchases and leases include repossession of the asset.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 7 - Long-Term Obligations: (Continued)

Primary Government - Business-type Activities Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2025:

	Balance July 1, 2024 <u>As restated</u>	Increases/ <u>Issuances</u>	Decreases/ <u>Retirements</u>	Balance June 30, 2025
Direct borrowings and placements				
Revenue bonds	\$ 16,650,061	\$ 391,488	\$ (1,323,945)	\$ 15,717,604
Deferred amount:				
Premium	151,887	-	(17,525)	134,362
Finance purchases	649,151	-	(159,670)	489,481
Total direct borrowings and placements	\$ 17,451,099	\$ 391,488	\$ (1,501,140)	\$ 16,341,447
Landfill closure/postclosure estimate	7,777,653	747,930	-	8,525,583
Net OPEB liabilities	162,407	37,483	(42,886)	157,004
Compensated absences*	85,761	-	(6,341)	79,420
Net pension liability	382,626	916,633	(706,855)	592,404
 Total	 \$ 25,859,546	 \$ 2,093,534	 \$ (2,257,222)	 \$ 25,695,858

* Change in compensated absences is shown net

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

Year Ending June 30,	Direct Borrowings and Placements					
	Water		Sewer		Solid Waste	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 230,000	\$ 116,061	\$ 852,145	\$ -	\$ 413,902	\$ 23,667
2027	235,000	110,399	852,144	-	421,554	14,321
2028	245,000	104,156	852,145	-	429,225	4,802
2029	250,000	97,353	852,144	-	-	-
2030	260,000	90,206	852,144	-	-	-
2031-2035	1,400,000	330,514	3,316,100	-	-	-
2036-2040	1,290,000	91,023	1,363,374	-	-	-
2041-2045	-	-	1,311,224	-	-	-
2046-2048	-	-	780,984	-	-	-
 Totals	 \$ 3,910,000	 \$ 939,712	 \$ 11,032,404	 \$ -	 \$ 1,264,681	 \$ 42,790

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 7 - Long-Term Obligation: (Continued)

Primary Government - Business-type Activities Indebtedness: (Continued)

Details of long-term indebtedness: (Continued)

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Direct Borrowings and Placements							
VRA Revenue Bond	0.00%	12/1/2010	2031	\$250,000 a	\$ 5,000,000	\$ 1,744,251	\$ 250,000
VRA Revenue Bond	0.00%	5/10/2012	2032	\$162,500-325,000 a	6,500,000	3,061,125	325,000
VRA Revenue Bond	2.04-4.83%	4/4/2013	2039	\$125,000-345,000 a+	5,395,000	1,095,000	55,000
VRA Revenue Bond	0.00%	4/10/2018	2038	\$7,450 sa	298,000	201,150	14,900
VRA Revenue Bond	1.94-3.44%	10/20/2019	2039	\$35,000-240,000 a+	3,140,000	2,815,000	175,000
VRA Revenue Bond	0.00%	5/1/2022	2048	\$131,122 sa	6,556,118	6,025,878	262,245
VML-VACO General Obligation Bond	2.28%	10/16/2017	2028	\$215,300-264,300 a+	2,390,500	775,200	252,500
Finance Purchase - VML/VACo Equip Series	1.70%	10/23/2017	2028	\$293,450-\$323,381 a+	1,568,987	489,481	161,402
Total Direct Borrowings and Placements						<u>\$ 16,207,085</u>	<u>\$ 1,496,047</u>
Deferred Amount:							
Unamortized Premium	n/a	4/4/2013	n/a	n/a	\$ 720,990	\$ 134,362	\$ 17,525
Other Obligations:							
Compensated Absences						\$ 79,420	\$ 59,565
Landfill Closure/Post-Closure Liability						8,525,583	-
Net OPEB Liabilities						157,004	-
Net Pension Liability						592,404	-
Total Other Obligations						<u>\$ 9,354,411</u>	<u>\$ 59,565</u>
Total Long-Term Obligations						<u>\$ 25,695,858</u>	<u>\$ 1,573,137</u>

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

(a) - annual principal installments shown; no interest

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

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

Collateral for finance purchases is the underlying assets. Default provisions for finance purchases include repossession of the asset.

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Note 8 - Pension Plan:

Plan Description

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

Benefit Structures

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

- a. Employees with a membership before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit service or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.

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Note 8 - Pension Plan: (Continued)

Benefit Structures (Continued)

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

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

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

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

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 8 - Pension Plan: (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2023 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Primary Government</u>
Inactive members or their beneficiaries currently receiving benefits	104
Inactive members:	
Vested inactive members	7
Non-vested inactive members	29
Active elsewhere in VRS	<u>32</u>
Total inactive members	68
Active members	<u>97</u>
Total covered employees	<u><u>269</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The City's contractually required employer contribution rate for the year ended June 30, 2025 was 12.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$557,620 and \$513,070 for the years ended June 30, 2025 and June 30, 2024, respectively.

The defined contributions component of the Hybrid plan includes member and employer mandatory and voluntary contributions. The Hybrid plan member must contribute a mandatory rate of 1% of their covered payroll. The employer must also contribute a mandatory rate of 1% of this covered payroll, which totaled \$20,305 for the City for the year ended June 30, 2025. Hybrid plan members may also elect to contribute an additional voluntary rate of up to 4% of their covered payroll; which would require the employer a mandatory additional contribution rate of up to 2.5%. This additional employer mandatory contribution totaled \$16,262 for the City for the year ended June 30, 2025. The total Hybrid plan participant covered payroll totaled \$2,030,500 for the City, for the year ended June 30, 2025.

Note 8 - Pension Plan: (Continued)

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The City's net pension liabilities was measured as of June 30, 2024. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2023 and rolled forward to the measurement date of June 30, 2024.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2023, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates:

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 8 - Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits:

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2023, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

Inflation	2.50%
Salary increases, including inflation	3.50% - 4.75%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

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Note 8 - Pension Plan: (Continued)

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

Mortality rates:

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 8 - Pension Plan: (Continued)

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

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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Note 8 - Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return*</u>
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnerships	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	-3.00%	3.50%	-0.11%
Total	<u><u>100.00%</u></u>		<u><u>7.07%</u></u>
		**Expected arithmetic nominal return	<u><u>7.07%</u></u>

* The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

**On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 8 - Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. For the year ended June 30, 2024, the employer contribution rate was 100% of the actuarially determined employer contribution rate from the June 30, 2023 actuarial valuations. From July 1, 2024 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2023	\$ 26,121,433	\$ 24,480,210	\$ 1,641,223
Changes for the year:			
Service cost	\$ 446,598	\$ -	\$ 446,598
Interest	1,734,149	-	1,734,149
Differences between expected and actual experience	1,809,764	-	1,809,764
Contributions - employer	-	512,693	(512,693)
Contributions - employee	-	198,971	(198,971)
Net investment income	-	2,337,646	(2,337,646)
Benefit payments, including refunds of employee contributions	(1,753,875)	(1,753,875)	-
Administrative expenses	-	(16,290)	16,290
Other changes	-	455	(455)
Net changes	\$ 2,236,636	\$ 1,279,600	\$ 957,036
Balances at June 30, 2024	\$ 28,358,069	\$ 25,759,810	\$ 2,598,259

Note 8 - Pension Plan: (Continued)

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

The following presents the net pension liability of the City using the discount rate of 6.75%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>(5.75%)</u>	<u>(6.75%)</u>	<u>(7.75%)</u>
City			
Net Pension Liability (Asset)	\$ 5,721,477	\$ 2,598,259	\$ (23,954)

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

For the year ended June 30, 2025, the City recognized pension expense of \$(32,552). At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Primary Government</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,105,575	\$ 151,550
Change in proportionate share	25,858	25,858
Net difference between projected and actual earnings on pension plan investments	-	691,924
Employer contributions subsequent to the measurement date	<u>557,620</u>	<u>-</u>
Total	<u>\$ 1,689,053</u>	<u>\$ 869,332</u>

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Note 8 - Pension Plan: (Continued)

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

\$557,620 reported as deferred outflows of resources related to pensions resulting from the City’s contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Primary Government</u>
2026	\$ (69,342)
2027	605,501
2028	(129,867)
2029	(144,191)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2024 Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/Publications/2024-annual-report-pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 9—Healthcare OPEB Plan:

Plan Description

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

Benefits Provided

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

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 9—Healthcare OPEB Plan: (Continued)

Plan Membership

At June 30, 2024 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	97
Total retirees with coverage	<u>1</u>
Total	<u><u>98</u></u>

Contributions

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the City Council. The amount paid by the City for OPEB as the benefits came due during the year ended June 30, 2024 was \$11,632.

Total OPEB Liability

The City’s total OPEB liability was measured as of June 30, 2024. The total OPEB liability was determined by an actuarial valuation as of June 30, 2023.

Actuarial Assumptions

The total OPEB liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry Age Normal Cost method with normal costs determined as a percentage of pay
Discount Rate	3.97% at measurement date
Inflation	2.50%
Healthcare Trend Rate	5.50% from the beginning (7/01/2023) grading down to 4.00% (by 0.25% increments) in 2029
Salary Increase Rates	4.00%
Retirement Age	Retirement rates vary by gender, job classification, service and plan eligibility. They are based on the 2016-2020 VRS Experience Study.
Mortality Rates	Pub-2010 tables based on public plan experience - with separate rates by gender, by job classification, and by retiree status. The rates are projected into the future using Scale MP-2021.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 9—Healthcare OPEB Plan: (Continued)

Actuarial Assumptions (Continued)

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

Discount Rate

The discount rate is based on the Muni 20 year Aa published by Fidelity investments.

Changes in Total OPEB Liability

	<u>Primary Government Total OPEB Liability</u>
Balances at June 30, 2023 (Measurement Date)	\$ 312,281
Changes for the year:	
Service cost	\$ 11,225
Interest	12,264
Change in assumptions	(2,439)
Benefits paid	(11,632)
Net changes	\$ 9,418
Balances at June 30, 2024 (Measurement Date)	\$ <u>321,699</u>

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

The following amounts present the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.97%) or one percentage point higher (4.97%) than the current discount rate:

	<u>Rate</u>		
	<u>1% Decrease (2.97%)</u>	<u>Current Discount (3.97%)</u>	<u>1% Increase (4.97%)</u>
\$	296,635	\$ 321,699	\$ 349,458

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 9—Healthcare OPEB Plan: (Continued)

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

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (2.97) or one percentage point higher (4.97) than the current healthcare cost trend rates:

Rates		
1% Decrease (2.97%)	Healthcare Cost Trend (3.97%)	1% Increase (4.97%)
\$ 299,469	\$ 321,699	\$ 344,302

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

For the year ended June 30, 2025, the City recognized OPEB expense in the amount of \$(92,840). At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 229,691
Changes in assumptions	10,035	162,444
Employer contributions subsequent to the measurement date	16,944	-
Total	<u>\$ 26,979</u>	<u>\$ 392,135</u>

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Note 9—Healthcare OPEB Plan: (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

\$16,944 reported as deferred outflows of resources related to OPEB resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2026	\$ (135,293)
2027	(135,295)
2028	(48,407)
2029	(35,169)
2030	(27,586)
Thereafter	(350)
Total	<u>\$ (382,100)</u>

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

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan):

Plan Description

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

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

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Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

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

Eligible Employees

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

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$9,532 as of June 30, 2025.

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.18% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.71% (1.18% x 60%) and the employer component was 0.47% (1.18% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2025 was 0.47% of covered employee compensation. This rate was the final approved General Assembly rate, which was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Plan from the City were \$20,967 and \$23,613 for the years ended June 30, 2025 and June 30, 2024, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

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

At June 30, 2025, the City reported a liability of \$190,041 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2024 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2023, and rolled forward to the measurement date of June 30, 2024. The covered employer’s proportion of the Net GLI OPEB Liability was based on the covered employer’s actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2024 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2024, the City’s proportion was 0.01703% as compared to 0.01618% at June 30, 2023.

For the year ended June 30, 2025, the City recognized GLI OPEB expense of \$(2,831). Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2025, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 29,974	\$ 4,642
Net difference between projected and actual earnings on GLI OPEB program investments	-	16,018
Change in assumptions	1,083	9,417
Changes in proportion	9,648	21,491
Employer contributions subsequent to the measurement date	<u>20,967</u>	<u>-</u>
Total	<u>\$ 61,672</u>	<u>\$ 51,568</u>

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Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

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

\$20,967 reported as deferred outflows of resources related to the GLI OPEB resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	<u>Primary Government</u>
2026	\$ (14,436)
2027	(410)
2028	(3,319)
2029	2,812
2030	4,490
Thereafter	-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2023, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024. The assumptions include several employer groups. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

Inflation	2.50%
Salary increases, including inflation:	
Locality - General employees	3.50%-5.35%
Locality - Hazardous Duty employees	3.50%-4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation

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Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2024, NOL amounts for the GLI Plan is as follows (amounts expressed in thousands):

	GLI OPEB Plan
Total GLI OPEB Liability	\$ 4,196,055
Plan Fiduciary Net Position	3,080,133
GLI Net OPEB Liability (Asset)	<u>\$ 1,115,922</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	73.41%

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

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Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return*</u>
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnerships	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	-3.00%	3.50%	-0.11%
Total	<u><u>100.00%</u></u>		<u><u>7.07%</u></u>
		**Expected arithmetic nominal return	<u><u>7.07%</u></u>

*The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

**On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median rate of return of 7.14%, including expected inflation of 2.50%.

Note 10-Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2024, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 113% of the actuarially determined contribution rate. From July 1, 2024 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer’s Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer’s proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer’s proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City's proportionate share of the GLI Plan Net OPEB Liability	\$ 295,539	\$ 190,041	\$ 104,813

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan’s Fiduciary Net Position is available in the separately issued VRS 2024 Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/Publications/2024-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan):

Plan Description

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

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

Eligible Employees

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

Benefit Amounts

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

HIC Plan Notes

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

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2023 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>Primary Government</u>
Inactive members or their beneficiaries currently receiving benefits	<u>55</u>
Inactive members	
Vested inactive members	1
Active elsewhere in VRS	18
Total inactive members	<u>74</u>
Active members	90
Total covered employees	<u><u>164</u></u>

Contributions

The contribution requirements for active employees is governed by §51.1-1402(E) of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. The City’s contractually required employer contribution rate for the year ended June 30, 2025 was 0.57% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the City to the HIC Plan were \$23,120 and \$22,568 for the years ended June 30, 2025 and June 30, 2024, respectively.

Net HIC OPEB Liability

The City net HIC OPEB liability was measured as of June 30, 2024. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2023, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2023, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

Inflation	2.50%
Salary increases, including inflation:	
Locality - General employees	3.50%-5.35%
Locality - Hazardous Duty employees	3.50%-4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

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Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return*</u>
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnerships	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	-3.00%	3.50%	-0.11%
Total	100.00%		7.07%
		**Expected arithmetic nominal return	7.07%

*The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

**On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2024, the rate contributed by the entity for the HIC OPEB was 100% of the actuarially determined contribution rate. From July 1, 2024 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

Changes in Net HIC OPEB Liability - Primary Government

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2023	\$ 286,301	\$ 116,397	\$ 169,904
Changes for the year:			
Service cost	\$ 3,745	\$ -	\$ 3,745
Interest	18,848	-	18,848
Differences between expected and actual experience	(5,165)	-	(5,165)
Contributions - employer	-	22,568	(22,568)
Net investment income	-	11,069	(11,069)
Benefit payments	(21,624)	(21,624)	-
Administrative expenses	-	(153)	153
Net changes	\$ (4,196)	\$ 11,860	\$ (16,056)
Balances at June 30, 2024	\$ 282,105	\$ 128,257	\$ 153,848

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

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

The following presents the City’s HIC Program net HIC OPEB liability using the discount rate of 6.75%, as well as what the City’s net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
City's Net HIC OPEB Liability	\$ 180,067	\$ 153,848	\$ 131,299

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

For the year ended June 30, 2025, the City recognized HIC Plan OPEB expense of \$3,794. At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to the City HIC Plan from the following sources:

	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 26,768
Net difference between projected and actual earnings on HIC OPEB plan investments	-	2,524
Change in assumptions	9,387	-
Employer contributions subsequent to the measurement date	23,120	-
Total	\$ 32,507	\$ 29,292

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 11-Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB: (Continued)

\$23,120 reported as deferred outflows of resources related to the HIC OPEB resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

Year Ended June 30	Primary Government
2026	\$ (10,910)
2027	(6,746)
2028	(1,612)
2029	(637)

HIC Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Plan is available in the separately issued VRS 2024 Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2024-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 12 - Aggregate OPEB Information:

	Primary Government			
	Deferred Outflows	Deferred Inflows	Net OPEB Liabilities	OPEB Expense
City Stand-Alone Plan (Note 9)	\$ 26,979	\$ 392,135	\$ 321,699	\$ (92,840)
VRS OPEB Plans:				
Group Life Insurance Plan (Note 10)	61,672	51,568	190,041	(2,831)
Health Insurance Credit Plan (Note 11)	32,507	29,292	153,848	3,794
Totals	<u>\$ 121,158</u>	<u>\$ 472,995</u>	<u>\$ 665,588</u>	<u>\$ (91,877)</u>

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 13 - Capital Assets:

Capital asset activity for the year ended June 30, 2025 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,036,865	\$ -	\$ -	\$ 2,036,865
Construction in progress	1,347,372	3,112,026	(494,502)	3,964,896
Total capital assets not being depreciated	<u>\$ 3,384,237</u>	<u>\$ 3,112,026</u>	<u>\$ (494,502)</u>	<u>\$ 6,001,761</u>
Capital assets, being depreciated/amortized:				
Buildings and improvements	\$ 32,487,652	\$ 204,827	\$ -	\$ 32,692,479
Infrastructure	4,906,051	494,502	-	5,400,553
Machinery and equipment	11,627,112	299,632	(28,614)	11,898,130
Lease machinery and equipment	376,479	-	-	376,479
Total capital assets being depreciated/amortized	<u>\$ 49,397,294</u>	<u>\$ 998,961</u>	<u>\$ (28,614)</u>	<u>\$ 50,367,641</u>
Accumulated depreciation/amortization:				
Buildings and improvements	\$ (14,272,754)	\$ (851,839)	\$ -	\$ (15,124,593)
Infrastructure	(1,298,836)	(157,471)	-	(1,456,307)
Machinery and equipment	(8,122,831)	(1,013,596)	28,614	(9,107,813)
Lease machinery and equipment	(73,287)	(75,293)	-	(148,580)
Total accumulated depreciation/amortization	<u>\$ (23,767,708)</u>	<u>\$ (2,098,199)</u>	<u>\$ 28,614</u>	<u>\$ (25,837,293)</u>
Total capital assets being depreciated, net	<u>\$ 25,629,586</u>	<u>\$ (1,099,238)</u>	<u>\$ -</u>	<u>\$ 24,530,348</u>
Governmental activities capital assets, net	<u>\$ 29,013,823</u>	<u>\$ 2,012,788</u>	<u>\$ (494,502)</u>	<u>\$ 30,532,109</u>

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 13 - Capital Assets: (Continued)

Business-type activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 8,116,424	\$ 695,993	\$ (8,478,215)	\$ 334,202
Capital assets, being depreciated:				
Equipment and vehicles	\$ 2,281,990	\$ 256,021	\$ -	\$ 2,538,011
Infrastructure	42,230,524	8,478,215	-	50,708,739
Total capital assets being depreciated	<u>\$ 44,512,514</u>	<u>\$ 8,734,236</u>	<u>\$ -</u>	<u>\$ 53,246,750</u>
Accumulated depreciation:				
Equipment and vehicles	\$ (1,220,264)	\$ (193,494)	\$ -	\$ (1,413,758)
Infrastructure	(20,691,938)	(2,061,394)	-	(22,753,332)
Total accumulated depreciation	<u>\$ (21,912,202)</u>	<u>\$ (2,254,888)</u>	<u>\$ -</u>	<u>\$ (24,167,090)</u>
Total capital assets being depreciated, net	<u>\$ 22,600,312</u>	<u>\$ 6,479,348</u>	<u>\$ -</u>	<u>\$ 29,079,660</u>
Business-type activities capital assets, net	<u>\$ 30,716,736</u>	<u>\$ 7,175,341</u>	<u>\$ (8,478,215)</u>	<u>\$ 29,413,862</u>

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

Governmental activities:

General government administration	\$ 194,139
Public safety	774,210
Public works	319,378
Health and welfare	5,003
Education	579,489
Parks, recreation, and cultural	225,980
	<u>2,098,199</u>

Total depreciation/amortization expense-governmental activities \$ 2,098,199

Business-type activities:

Water fund	\$ 374,531
Sewer fund	730,693
Solid waste fund	1,149,664
	<u>2,254,888</u>

Total depreciation/amortization expense-business-type activities \$ 2,254,888

Total depreciation/amortization expense-Primary Government \$ 4,353,087

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 14 - Risk Management:

The City is 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 participates with other localities in a public entity risk pool for their coverage of general liability and auto insurance with the Virginia Risk Sharing Association. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The City pays the Virginia Risk Sharing Association 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 continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 15 - Commitments and Contingencies:

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

The City was involved in a major construction project during the fiscal year as presented below, along with the anticipated funding source.

<u>Project</u>	<u>Contract Amount</u>	<u>Contract Amount Outstanding at June 30, 2025</u>	<u>Funding Source</u>
Monroe Avenue Sewer Improvements	\$ 1,240,000	\$ 902,504	Federal Funds

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

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. \$8,525,583 is the total estimated closure and post-closure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2025. This represents the cumulative amount based on the use of 100% of the estimated capacity of the landfill and is based on what it would cost to perform all remaining closure and post-closure care in 2025. In fiscal year 2002, the Department of Environmental Quality closed permit #178. The City's open landfill permit #594, is comprised of cells A, B and C and stopped accepting waste on July 31, 2025. The City will close the landfill in fiscal year 2026. The amount reported in the City's books is 100% of the total estimate, or \$8,525,583. The current year liability is based on a study performed as of that date and adjusted for inflation. Actual costs for closure and post-closure monitoring may change due to inflation, deflation, changes in technology, or changes in regulations. The City uses the Financial Assurance Mechanism to meet the Department of Environmental Quality's assurance requirements for landfill closure and post-closure costs.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 16 - Landfill Closure and Post-Closure Care Cost: (Continued)

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

Note 17 - Surety Bonds:

Fidelity & Deposit Company of Maryland-Surety:

Allen Dressler, City Manager	\$ 100,000
Gisela Roldan, City Treasurer	200,000
Cathy M. Kimberlin, Commissioner of the Revenue	3,000
All City Employees: blanket bond	100,000

Note 18 - Deferred/Unavailable and Unearned Revenue:

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

	<u>Unavailable</u>
Property taxes receivable-2nd half 2025	\$ 2,820,616
Prepaid property taxes	12,884
Total deferred revenue for governmental activities	\$ 2,833,500
Property taxes receivable due prior to June 30, 2025, not collected within 60 days	\$ 401,960
Total unavailable revenue for governmental funds	\$ <u>3,235,460</u>

Unearned revenue consisting of \$7,725 consists of PPTR state revenue collected that has not met the revenue criteria.

Note 19 - Concentrations:

The City of Covington, Virginia relies heavily on the two businesses for tax revenue and employment of citizens. WestRock directly comprises 16.56% of the real estate tax levy, not including 80.13% of the Public Service Corporation tax levy. It also comprises 0.49% of the personal property taxes, not including 58.66% of machinery and tools tax levy, for a combined 39.17% of the total City's 2025 personal property tax levy. Virginia Ingevity Corp. directly comprises 37.77% of the machinery and tools tax levy and 25.12% of the total City's 2025 personal property tax levy.

Note 20 - Litigation:

As of June 30, 2025, there were no matters of litigation involving the City which would materially affect the City's financial position should a court decision on pending matters not be favorable.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2025

Note 21 - Adoption of Accounting Principle:

The City implemented provisions of the Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*. The objective of Statement No. 101 is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Beginning net position for the City was restated to include sick leave in compensated absences as part of implementation of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*.

	Net Position				
	Governmental Activities	Water	Sewer	Landfill	Business-type Activities
Beginning balance, July 1, 2024, as previously stated	\$ 20,872,114	\$ 7,432,580	\$ 8,631,846	\$ (5,935,657)	\$ 10,128,769
GASB 101 implementation	(213,860)	(11,297)	(5,968)	(6,376)	(23,641)
Beginning balance, July 1, 2024, as restated	<u>\$ 20,658,254</u>	<u>\$ 7,421,283</u>	<u>\$ 8,625,878</u>	<u>\$ (5,942,033)</u>	<u>\$ 10,105,128</u>

Note 22-Upcoming Pronouncements:

Statement No. 103, *Financial Reporting Model Improvements*, improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

Statement No. 104, *Disclosure of Certain Capital Assets*, requires certain types of assets (lease assets, subscription assets, intangible right-to-use assets, and other intangible assets) to be disclosed separately in the capital asset note disclosures by major class of underlying asset. It also requires additional disclosures for capital assets held for sale. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

Implementation Guide No. 2025-1, *Implementation Guidance Update—2025*, effective for fiscal years beginning after June 15, 2025.

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

Required Supplementary Information

City of Covington, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
General property taxes	\$ 10,615,696	\$ 10,615,696	\$ 11,377,806	\$ 762,110
Other local taxes	4,470,876	4,470,876	4,838,612	367,736
Permits, privilege fees, and regulatory licenses	12,590	12,590	34,757	22,167
Fines and forfeitures	2,050	2,050	7,303	5,253
Revenue from the use of money and property	428,129	428,129	716,275	288,146
Charges for services	416,112	416,112	606,952	190,840
Miscellaneous	32,804	681,858	572,911	(108,947)
Recovered costs	77,500	449,974	967,862	517,888
Intergovernmental:				
Commonwealth	4,328,724	5,148,803	4,785,265	(363,538)
Federal	68,750	726,315	249,533	(476,782)
Total Revenues	<u>\$ 20,453,231</u>	<u>\$ 22,952,403</u>	<u>\$ 24,157,276</u>	<u>\$ 1,204,873</u>
EXPENDITURES				
Current:				
General government administration	\$ 2,492,352	\$ 2,557,180	\$ 2,223,268	\$ 333,912
Judicial administration	349,823	349,823	348,741	1,082
Public safety	5,435,478	5,697,796	4,847,793	850,003
Public works	3,746,911	5,413,997	3,874,393	1,539,604
Health and welfare	2,113,911	2,754,361	2,512,082	242,279
Education	2,997,872	3,439,946	3,499,359	(59,413)
Parks, recreation, and cultural	2,238,986	2,350,381	2,067,348	283,033
Community development	298,171	499,485	309,011	190,474
Nondepartmental	720,612	4,130,246	3,137,077	993,169
Debt service:				
Principal retirement	1,481,409	4,481,409	4,606,612	(125,203)
Interest and other fiscal charges	745,397	708,983	726,385	(17,402)
Bond issuance costs	-	13,006	13,006	-
Total Expenditures	<u>\$ 22,620,922</u>	<u>\$ 32,396,613</u>	<u>\$ 28,165,075</u>	<u>\$ 4,231,538</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (2,167,691)</u>	<u>\$ (9,444,210)</u>	<u>\$ (4,007,799)</u>	<u>\$ 5,436,411</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 485,501	\$ 596,664	\$ 583,914	\$ (12,750)
Transfers out	-	(412,598)	(412,598)	-
Issuance of general obligation refunding bond	-	3,011,500	3,011,500	-
Total other financing sources (uses)	<u>\$ 485,501</u>	<u>\$ 3,195,566</u>	<u>\$ 3,182,816</u>	<u>\$ (12,750)</u>
Net change in fund balances	<u>\$ (1,682,190)</u>	<u>\$ (6,248,644)</u>	<u>\$ (824,983)</u>	<u>\$ 5,423,661</u>
Fund balances - beginning	<u>1,682,190</u>	<u>6,248,644</u>	<u>16,612,015</u>	<u>10,363,371</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,787,032</u>	<u>\$ 15,787,032</u>

City of Covington, Virginia
 Schedule of Changes in Net Pension Liability and Related Ratios
 Pension Plans
 For the Measurement Dates of June 30, 2015 through June 30, 2024

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 446,598	\$ 389,923	\$ 386,370	\$ 405,216	\$ 390,965	\$ 404,154	\$ 386,694	\$ 388,395	\$ 384,532	\$ 381,110
Interest	1,734,149	1,748,209	1,808,172	1,722,906	1,701,318	1,695,769	1,667,681	1,659,955	1,624,606	1,592,529
Differences between expected and actual experience	1,809,764	(665,278)	(1,435,842)	(714,113)	(268,603)	(201,736)	61,596	(272,688)	(272,328)	(248,359)
Changes of assumptions				992,821		671,408		(145,142)		
Benefit payments	(1,753,875)	(1,721,783)	(1,579,389)	(1,480,613)	(1,527,110)	(1,647,193)	(1,782,249)	(1,258,039)	(1,205,609)	(1,328,466)
Net change in total pension liability	\$ 2,236,636	\$ (248,929)	\$ (820,689)	\$ 926,217	\$ 296,570	\$ 919,402	\$ 333,722	\$ 372,481	\$ 531,201	\$ 396,814
Total pension liability - beginning	\$ 26,121,433	\$ 26,370,362	\$ 27,191,051	\$ 26,264,834	\$ 25,968,264	\$ 25,048,862	\$ 24,715,140	\$ 24,342,659	\$ 23,811,458	\$ 23,414,644
Total pension liability - ending (a)	\$ 28,358,069	\$ 26,121,433	\$ 26,370,362	\$ 27,191,051	\$ 26,264,834	\$ 25,968,264	\$ 25,048,862	\$ 24,715,140	\$ 24,342,659	\$ 23,811,458
Plan fiduciary net position										
Contributions - employer	\$ 512,693	\$ 450,867	\$ 506,469	\$ 538,960	\$ 492,493	\$ 497,259	\$ 506,756	\$ 508,232	\$ 624,975	\$ 600,630
Contributions - employee	198,971	174,885	167,850	179,784	178,110	180,212	181,061	184,142	183,862	177,538
Net investment income	2,337,646	1,515,985	(12,889)	5,475,140	392,439	1,325,010	1,459,431	2,220,416	317,657	823,292
Benefit payments	(1,753,875)	(1,721,783)	(1,579,389)	(1,480,613)	(1,527,110)	(1,647,193)	(1,782,249)	(1,258,039)	(1,205,609)	(1,328,466)
Administrator charges	(16,290)	(15,737)	(15,756)	(13,993)	(13,873)	(13,893)	(13,221)	(13,102)	(11,660)	(11,662)
Other	455	606	566	512	(458)	(830)	(1,269)	(1,964)	(135)	(171)
Net change in plan fiduciary net position	\$ 1,279,600	\$ 404,823	\$ (933,149)	\$ 4,699,790	\$ (478,399)	\$ 340,565	\$ 350,509	\$ 1,639,685	\$ (90,910)	\$ 261,161
Plan fiduciary net position - beginning	\$ 24,480,210	\$ 24,075,387	\$ 25,008,536	\$ 20,308,746	\$ 20,787,145	\$ 20,446,580	\$ 20,096,071	\$ 18,456,386	\$ 18,547,296	\$ 18,286,135
Plan fiduciary net position - ending (b)	\$ 25,759,810	\$ 24,480,210	\$ 24,075,387	\$ 25,008,536	\$ 20,308,746	\$ 20,787,145	\$ 20,446,580	\$ 20,096,071	\$ 18,456,386	\$ 18,547,296
City's net pension liability - ending (a) - (b)	\$ 2,598,259	\$ 1,641,223	\$ 2,294,975	\$ 2,182,515	\$ 5,956,088	\$ 5,181,119	\$ 4,602,282	\$ 4,619,069	\$ 5,886,273	\$ 5,264,162
Plan fiduciary net position as a percentage of the total pension liability	90.84%	93.72%	91.30%	91.97%	77.32%	80.05%	81.63%	81.31%	75.82%	77.89%
Covered payroll	\$ 4,348,389	\$ 3,789,229	\$ 3,624,039	\$ 3,841,633	\$ 3,787,491	\$ 3,794,890	\$ 3,767,567	\$ 3,756,414	\$ 3,712,605	\$ 3,552,497
City's net pension liability as a percentage of covered payroll	59.75%	43.31%	63.33%	56.81%	157.26%	136.53%	122.16%	122.96%	158.55%	148.18%

City of Covington, Virginia
 Schedule of Employer Contributions
 Pension Plans
 For the Years Ended June 30, 2016 through June 30, 2025

Date	Contractually Required Contribution (1)*	Contributions in Relation to Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2025	\$ 557,620	\$ 557,620	\$ -	\$ 4,460,969	12.50%
2024	513,070	513,070	-	4,348,389	11.80%
2023	450,897	450,897	-	3,789,229	11.90%
2022	506,769	506,769	-	3,624,039	13.98%
2021	538,960	538,960	-	3,841,633	14.03%
2020	492,493	492,493	-	3,787,491	13.00%
2019	497,259	497,259	-	3,794,890	13.10%
2018	506,756	506,756	-	3,767,567	13.45%
2017	518,385	518,385	-	3,756,414	13.80%
2016	624,974	624,974	-	3,712,605	16.83%

*Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

City of Covington, Virginia
 Notes to Required Supplementary Information
 Pension Plans
 For the Year Ended June 30, 2025

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

City of Covington, Virginia
 Schedule of Changes in Total OPEB Liability and Related Ratios
 For the Measurement Dates of June 30, 2017 through June 30, 2024

	2024	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability								
Service cost	\$ 11,225	\$ 15,088	\$ 19,546	\$ 25,104	\$ 21,804	\$ 46,574	\$ 40,948	\$ 46,022
Interest	12,264	18,461	10,654	16,177	19,370	46,785	39,837	31,712
Changes in assumptions	(2,439)	(4,031)	(53,065)	(28,472)	26,767	(459,792)	(5,351)	(52,691)
Differences between expected and actual experience	-	(186,659)	-	(87,557)	-	(235,354)	138,106	-
Benefit payments	(11,632)	(31,555)	(23,047)	(27,082)	(32,524)	(61,456)	(30,146)	(35,555)
Net change in total OPEB liability	\$ 9,418	\$ (188,696)	\$ (45,912)	\$ (101,830)	\$ 35,417	\$ (663,243)	\$ 183,394	\$ (10,512)
Total OPEB liability - beginning	312,281	500,977	546,889	648,719	613,302	1,276,545	1,093,151	1,103,663
Total OPEB liability - ending	\$ 321,699	\$ 312,281	\$ 500,977	\$ 546,889	\$ 648,719	\$ 613,302	\$ 1,276,545	\$ 1,093,151
Covered-employee payroll	\$ 4,323,843	\$ 4,245,604	\$ 3,732,503	\$ 3,803,626	\$ 3,877,716	\$ 3,605,268	\$ 3,958,074	\$ 3,909,193
City's total OPEB liability as a percentage of covered-employee payroll	7.44%	7.36%	13.42%	14.38%	16.73%	17.01%	32.25%	27.96%

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

City of Covington, Virginia
 Notes to Required Supplementary Information - City OPEB
 For the Year Ended June 30, 2025

Valuation Date: 6/30/2023
 Measurement Date: 6/30/2024

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

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Individual Entry Age Normal Cost method with normal costs determined as a percentage of pay
Discount Rate	3.97% at measurement date
Inflation	2.50%
Healthcare Trend Rate	5.50% from the beginning (7/01/2023) grading down to 4.00% (by 0.25% increments) in 2029
Salary Increase Rates	4.00%
Retirement Age	Retirement rates vary by gender, job classification, service and plan eligibility. They are based on the 2016-2020 VRS Experience Study.
Mortality Rates	Pub-2010 tables based on public plan experience - with separate rates by gender, by job classification, and by retiree status. The rates are projected into the future using Scale MP-2021.

City of Covington, Virginia
 Schedule of Employer's Share of Net OPEB Liability
 Group Life Insurance (GLI) Plan
 For the Measurement Dates of June 30, 2017 through June 30, 2024

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2024	0.01703%	\$ 190,042	\$ 4,372,868	4.35%	73.41%
2023	0.01618%	194,048	3,810,619	5.09%	69.30%
2022	0.01670%	200,964	3,629,499	5.54%	67.21%
2021	0.01860%	216,903	3,845,525	5.64%	67.45%
2020	0.01840%	307,400	3,790,256	8.11%	52.64%
2019	0.01936%	315,039	3,794,890	8.30%	52.00%
2018	0.01990%	303,000	3,784,442	8.01%	51.22%
2017	0.02038%	307,000	3,758,508	8.17%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
 Schedule of Employer Contributions
 Group Life Insurance (GLI) Plan
 For the Years Ended June 30, 2016 through June 30, 2025

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2025	\$ 20,967	\$ 20,967	-	\$ 4,460,969	0.47%
2024	23,613	23,613	-	4,372,868	0.54%
2023	20,577	20,577	-	3,810,619	0.54%
2022	19,599	19,599	-	3,629,499	0.54%
2021	20,766	20,766	-	3,845,525	0.54%
2020	19,712	19,712	-	3,790,256	0.52%
2019	19,734	19,734	-	3,794,890	0.52%
2018	19,680	19,680	-	3,784,442	0.52%
2017	19,544	19,544	-	3,758,508	0.52%
2016	17,821	17,821	-	3,712,605	0.48%

City of Covington, Virginia
 Notes to Required Supplementary Information
 Group Life Insurance (GLI) Plan
 For the Year Ended June 30, 2025

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

City of Covington, Virginia
 Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios
 Health Insurance Credit (HIC) Plan
 For the Measurement Dates of June 30, 2017 through June 30, 2024

	2024	2023	2022	2021	2020	2019	2018	2017
Total HIC OPEB Liability								
Service cost	\$ 3,745	\$ 3,615	\$ 5,376	\$ 5,598	\$ 5,375	\$ 4,949	\$ 4,696	\$ 4,000
Interest	18,848	19,093	20,860	20,442	20,919	20,466	20,523	21,000
Differences between expected and actual experience	(5,165)	(4,633)	(49,074)	(7,664)	(7,509)	11,658	(879)	-
Changes of assumptions	-	-	20,984	6,370	-	6,786	-	(9,000)
Benefit payments	(21,624)	(22,037)	(23,098)	(24,752)	(26,958)	(25,663)	(24,663)	(20,000)
Other changes	-	-	-	-	-	-	(479)	1,000
Net change in total HIC OPEB liability	\$ (4,196)	\$ (3,962)	\$ (24,952)	\$ (6)	\$ (8,173)	\$ 18,196	\$ (802)	\$ (3,000)
Total HIC OPEB Liability - beginning	286,301	290,263	315,215	315,221	323,394	305,198	306,000	309,000
Total HIC OPEB Liability - ending (a)	\$ 282,105	\$ 286,301	\$ 290,263	\$ 315,215	\$ 315,221	\$ 323,394	\$ 305,198	\$ 306,000
Plan fiduciary net position								
Contributions - employer	\$ 22,568	\$ 19,531	\$ 18,690	\$ 20,084	\$ 17,401	\$ 17,440	\$ 17,319	\$ 17,000
Net investment income	11,069	6,477	234	23,900	1,974	6,328	7,271	11,000
Benefit payments	(21,624)	(22,037)	(23,098)	(24,752)	(26,958)	(25,663)	(24,663)	(20,000)
Administrator charges	(153)	(155)	(190)	(273)	(179)	(135)	(164)	-
Rounding	-	-	-	-	-	-	(196)	-
Other	-	193	3,591	-	-	(8)	(565)	1,000
Net change in plan fiduciary net position	\$ 11,860	\$ 4,009	\$ (773)	\$ 18,959	\$ (7,762)	\$ (2,038)	\$ (998)	\$ 9,000
Plan fiduciary net position - beginning	116,397	112,388	113,161	94,202	101,964	104,002	105,000	96,000
Plan fiduciary net position - ending (b)	\$ 128,257	\$ 116,397	\$ 112,388	\$ 113,161	\$ 94,202	\$ 101,964	\$ 104,002	\$ 105,000
City's net HIC OPEB liability - ending (a) - (b)	\$ 153,848	\$ 169,904	\$ 177,875	\$ 202,054	\$ 221,019	\$ 221,430	\$ 201,196	\$ 201,000
Plan fiduciary net position as a percentage of the total HIC OPEB liability	45.46%	40.66%	38.72%	35.90%	29.88%	31.53%	34.08%	34.31%
Covered payroll	\$ 4,056,054	\$ 3,426,144	\$ 3,278,951	\$ 3,523,595	\$ 3,480,076	\$ 3,487,954	\$ 3,463,554	\$ 3,466,331
City's net HIC OPEB liability as a percentage of covered payroll	3.79%	4.96%	5.42%	5.73%	6.35%	6.35%	5.81%	5.80%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

City of Covington, Virginia
 Schedule of Employer Contributions
 Health Insurance Credit (HIC) Plan
 For the Years Ended June 30, 2016 through June 30, 2025

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2025	\$ 23,120	\$ 23,120	\$ -	\$ 4,056,054	0.57%
2024	22,568	22,568	-	3,959,307	0.57%
2023	19,529	19,529	-	3,426,144	0.57%
2022	18,690	18,690	-	3,278,951	0.57%
2021	20,085	20,085	-	3,523,595	0.57%
2020	17,401	17,401	-	3,480,076	0.50%
2019	17,440	17,440	-	3,487,954	0.50%
2018	17,319	17,319	-	3,463,554	0.50%
2017	17,332	17,332	-	3,466,331	0.50%
2016	17,591	17,591	-	3,449,201	0.51%

City of Covington, Virginia
Notes to Required Supplementary Information
Health Insurance Credit (HIC) Plan
For the Year Ended June 30, 2025

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Local Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Other Supplementary Information

City of Covington, Virginia
 City Capital Projects Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
Capital projects	\$ -	\$ 1,161,852	\$ 1,061,003	\$ 100,849
Total expenditures	<u>\$ -</u>	<u>\$ 1,161,852</u>	<u>\$ 1,061,003</u>	<u>\$ 100,849</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (1,161,852)</u>	<u>\$ (1,061,003)</u>	<u>\$ 100,849</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ 238,403	\$ 238,403	\$ -
Transfers out	-	(111,163)	(111,163)	-
Issuance of general obligation bond	-	893,692	895,517	1,825
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 1,020,932</u>	<u>\$ 1,022,757</u>	<u>\$ 1,825</u>
Net change in fund balances	\$ -	\$ (140,920)	\$ (38,246)	\$ 102,674
Fund balances - beginning	-	140,920	139,095	(1,825)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,849</u>	<u>\$ 100,849</u>

Supporting Schedules

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 2,965,475	\$ 2,965,475	\$ 3,044,152	\$ 78,677
Real and personal public service corporation taxes	1,410,000	1,410,000	2,236,097	826,097
Personal property taxes	1,667,621	1,667,621	1,558,259	(109,362)
Mobile home taxes	7,600	7,600	9,509	1,909
Machinery and tools taxes	4,500,000	4,500,000	4,373,200	(126,800)
Penalties	30,000	30,000	84,082	54,082
Interest and fees	35,000	35,000	72,507	37,507
Total general property taxes	<u>\$ 10,615,696</u>	<u>\$ 10,615,696</u>	<u>\$ 11,377,806</u>	<u>\$ 762,110</u>
Other local taxes:				
Local sales and use taxes	\$ 1,707,126	\$ 1,707,126	\$ 1,786,313	\$ 79,187
Consumers' utility taxes	354,000	354,000	554,440	200,440
Consumption taxes	18,000	18,000	24,155	6,155
Business license taxes	610,000	610,000	630,740	20,740
Motor vehicle licenses	182,250	182,250	185,518	3,268
Bank stock taxes	245,000	245,000	255,066	10,066
Recordation tax	17,500	17,500	10,107	(7,393)
Hotel and motel room taxes	43,000	43,000	44,070	1,070
Restaurant food taxes	1,200,000	1,200,000	1,262,598	62,598
Tobacco taxes	94,000	94,000	85,605	(8,395)
Total other local taxes	<u>\$ 4,470,876</u>	<u>\$ 4,470,876</u>	<u>\$ 4,838,612</u>	<u>\$ 367,736</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 2,040	\$ 2,040	\$ 4,390	\$ 2,350
Zoning and subdivision permits	100	100	200	100
Building permits	10,100	10,100	29,807	19,707
Other permits and licenses	350	350	360	10
Total permits, privilege fees, and regulatory licenses	<u>\$ 12,590</u>	<u>\$ 12,590</u>	<u>\$ 34,757</u>	<u>\$ 22,167</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 2,050	\$ 2,050	\$ 7,303	\$ 5,253
Revenue from use of money and property:				
Revenue from use of money	\$ 403,500	\$ 403,500	\$ 669,149	\$ 265,649
Revenue from use of property	24,629	24,629	47,126	22,497
Total revenue from use of money and property	<u>\$ 428,129</u>	<u>\$ 428,129</u>	<u>\$ 716,275</u>	<u>\$ 288,146</u>
Charges for services:				
Charges for fire and rescue services	\$ 316,946	\$ 316,946	\$ 494,522	\$ 177,576
Charges for sanitation and waste removal	6,000	6,000	9,227	3,227
Charges for parks and recreation	36,343	36,343	47,679	11,336
Charges for cemetery	56,115	56,115	53,395	(2,720)
Charges for other services	708	708	2,129	1,421
Total charges for services	<u>\$ 416,112</u>	<u>\$ 416,112</u>	<u>\$ 606,952</u>	<u>\$ 190,840</u>
Miscellaneous:				
Miscellaneous	\$ 32,804	\$ 147,027	\$ 43,863	\$ (103,164)
Foundation grants	-	500,000	500,000	-
Opioid recovery funds	-	34,831	29,048	(5,783)
Total miscellaneous revenue	<u>\$ 32,804</u>	<u>\$ 681,858</u>	<u>\$ 572,911</u>	<u>\$ (108,947)</u>
Recovered costs:				
CSA recoveries	\$ 500	\$ 500	\$ 350	\$ (150)
Education	-	-	442,074	442,074
Other recovered costs	77,000	449,474	525,438	75,964
Total recovered costs	<u>\$ 77,500</u>	<u>\$ 449,974</u>	<u>\$ 967,862</u>	<u>\$ 517,888</u>
Total revenue from local sources	<u>\$ 16,055,757</u>	<u>\$ 17,077,285</u>	<u>\$ 19,122,478</u>	<u>\$ 2,045,193</u>

City of Covington, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2025

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 16,000	\$ 16,000	\$ 19,555	\$ 3,555
Mobile home titling tax	1,000	1,000	1,080	80
Motor vehicle rental tax	16,000	16,000	5,328	(10,672)
Telecommunications taxes	212,000	212,000	184,590	(27,410)
Personal property tax relief funds	545,479	545,479	548,927	3,448
Total noncategorical aid	<u>\$ 790,479</u>	<u>\$ 790,479</u>	<u>\$ 759,480</u>	<u>\$ (30,999)</u>
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 119,165	\$ 119,165	\$ 119,182	\$ 17
Treasurer	105,441	105,441	105,309	(132)
Registrar/electoral board	60,000	60,000	2,153	(57,847)
Total shared expenses	<u>\$ 284,606</u>	<u>\$ 284,606</u>	<u>\$ 226,644</u>	<u>\$ (57,962)</u>
Other categorical aid:				
Welfare payments	\$ 264,609	\$ 264,609	\$ 69,916	\$ (194,693)
CSA payments	1,001,728	1,401,077	1,306,962	(94,115)
Litter control grant	7,500	10,450	10,450	-
Fire program	30,000	30,000	30,000	-
Asset forfeiture	4,500	5,571	2,377	(3,194)
Law enforcement block grant	327,609	327,609	342,524	14,915
State highway payments	1,518,480	1,518,480	1,560,479	41,999
E-911 grant program	85,013	85,013	208,030	123,017
OEMS grant	5,200	62,981	5,423	(57,558)
VA commission for the arts	4,500	4,500	4,500	-
VA department of conservation grant	-	358,928	252,866	(106,062)
Other State funds	4,500	4,500	5,614	1,114
Total other categorical aid	<u>\$ 3,253,639</u>	<u>\$ 4,073,718</u>	<u>\$ 3,799,141</u>	<u>\$ (274,577)</u>
Total categorical aid	<u>\$ 3,538,245</u>	<u>\$ 4,358,324</u>	<u>\$ 4,025,785</u>	<u>\$ (332,539)</u>
Total revenue from the Commonwealth	<u>\$ 4,328,724</u>	<u>\$ 5,148,803</u>	<u>\$ 4,785,265</u>	<u>\$ (363,538)</u>
Revenue from the federal government:				
Categorical aid:				
Transportation enhancement grant	\$ -	\$ 492,064	\$ 14,482	\$ (477,582)
Disaster recovery	9,250	9,346	9,346	-
ARPA funds	-	53,500	53,500	-
Byrne criminal justice grant	9,500	9,500	2,975	(6,525)
CDBG Grant	-	50,000	50,000	-
Public assistance and welfare administration	50,000	50,000	57,325	7,325
Other federal aid	-	61,905	61,905	-
Total categorical aid	<u>\$ 68,750</u>	<u>\$ 726,315</u>	<u>\$ 249,533</u>	<u>\$ (476,782)</u>
Total revenue from the federal government	<u>\$ 68,750</u>	<u>\$ 726,315</u>	<u>\$ 249,533</u>	<u>\$ (476,782)</u>
Total General Fund	<u>\$ 20,453,231</u>	<u>\$ 22,952,403</u>	<u>\$ 24,157,276</u>	<u>\$ 1,204,873</u>
Permanent Fund:				
Cemetery Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 12,075	\$ 12,075
Total Primary Government	<u>\$ 20,453,231</u>	<u>\$ 22,952,403</u>	<u>\$ 24,169,351</u>	<u>\$ 1,216,948</u>

City of Covington, Virginia
 Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2025

<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	\$ 68,672	\$ 71,791	\$ 66,490	\$ 5,301
City clerk	19,606	20,621	6,588	14,033
Total legislative	<u>\$ 88,278</u>	<u>\$ 92,412</u>	<u>\$ 73,078</u>	<u>\$ 19,334</u>
General and financial administration:				
City manager	\$ 510,619	\$ 497,446	\$ 425,099	\$ 72,347
Human resources	47,100	87,100	5,549	81,551
Information technology	298,518	322,135	199,623	122,512
Legal services	65,983	66,209	53,145	13,064
Commissioner of revenue	283,339	283,339	284,001	(662)
Independent auditors	94,000	103,142	103,142	-
Treasurer	374,731	382,694	404,432	(21,738)
Central accounting	560,770	551,629	506,168	45,461
Total general and financial administration	<u>\$ 2,235,060</u>	<u>\$ 2,293,694</u>	<u>\$ 1,981,159</u>	<u>\$ 312,535</u>
Board of elections:				
Electoral board and officials	\$ 169,014	\$ 171,074	\$ 169,031	\$ 2,043
Total general government administration	<u>\$ 2,492,352</u>	<u>\$ 2,557,180</u>	<u>\$ 2,223,268</u>	<u>\$ 333,912</u>
Judicial administration:				
Courts:				
Circuit court	\$ 25,820	\$ 25,820	\$ 25,820	\$ -
General district court	8,157	8,157	8,157	-
Magistrates office	4,689	4,689	3,607	1,082
Clerk of the circuit court	63,045	63,045	63,045	-
Sheriff (court)	136,219	136,219	136,219	-
Courthouse security	37,838	37,838	37,838	-
Total courts	<u>\$ 275,768</u>	<u>\$ 275,768</u>	<u>\$ 274,686</u>	<u>\$ 1,082</u>
Commonwealth's attorney:				
Commonwealth's attorney	\$ 74,055	\$ 74,055	\$ 74,055	\$ -
Total judicial administration	<u>\$ 349,823</u>	<u>\$ 349,823</u>	<u>\$ 348,741</u>	<u>\$ 1,082</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,170,644	\$ 2,209,810	\$ 2,069,914	\$ 139,896
Sheriff	717,971	717,971	717,971	-
E-911	748,292	770,915	664,636	106,279
School resource officer	74,489	74,489	73,121	1,368
Seizure/forfeiture funds	5,000	6,071	1,890	4,181
Total law enforcement and traffic control	<u>\$ 3,716,396</u>	<u>\$ 3,779,256</u>	<u>\$ 3,527,532</u>	<u>\$ 251,724</u>
Fire and rescue services:				
Volunteer fire department	\$ 435,828	\$ 551,342	\$ 358,346	\$ 192,996
Ambulance service	667,560	746,156	605,953	140,203
Total fire and rescue services	<u>\$ 1,103,388</u>	<u>\$ 1,297,498</u>	<u>\$ 964,299</u>	<u>\$ 333,199</u>
Inspections:				
Building	\$ 501,954	\$ 502,262	\$ 237,758	\$ 264,504
Other protection:				
Animal control	\$ 113,640	\$ 118,640	\$ 118,064	\$ 576
Medical examiner	100	140	140	-
Total other protection	<u>\$ 113,740</u>	<u>\$ 118,780</u>	<u>\$ 118,204</u>	<u>\$ 576</u>
Total public safety	<u>\$ 5,435,478</u>	<u>\$ 5,697,796</u>	<u>\$ 4,847,793</u>	<u>\$ 850,003</u>

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

<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 works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 50,000	\$ 50,000	\$ 15,460	\$ 34,540
Street department	2,367,416	3,362,654	2,490,701	871,953
Snow and ice removal	25,000	45,909	45,909	-
Traffic engineering	135,329	133,202	96,680	36,522
Street cleaning	15,000	15,000	4,069	10,931
Street lights	180,000	180,000	179,784	216
Street projects	-	587,989	18,103	569,886
Total maintenance of highways, streets, bridges and sidewalks	\$ 2,772,745	\$ 4,374,754	\$ 2,850,706	\$ 1,524,048
Sanitation and waste removal:				
Refuse collection	\$ -	\$ 2,018	\$ 2,018	\$ -
Refuse disposal	-	111	111	-
Litter control grant	7,500	10,450	10,450	-
Total sanitation and waste removal	\$ 7,500	\$ 12,579	\$ 12,579	\$ -
Maintenance of general buildings and grounds:				
General properties	\$ 662,819	\$ 722,818	\$ 708,404	\$ 14,414
Motor vehicular maintenance	303,847	303,846	302,704	1,142
Total maintenance of general buildings and grounds	\$ 966,666	\$ 1,026,664	\$ 1,011,108	\$ 15,556
Total public works	\$ 3,746,911	\$ 5,413,997	\$ 3,874,393	\$ 1,539,604
Health and welfare:				
Health:				
Supplement of local health department	\$ 100,781	\$ 100,781	\$ 85,276	\$ 15,505
Mental health and mental retardation:				
Alleghany Highlands community services board	\$ 125,000	\$ 125,000	\$ 125,000	\$ -
Welfare:				
Radar transportation Service	\$ 15,204	\$ 15,204	\$ 15,204	\$ -
Feeding America	2,500	2,500	2,500	-
Safehomes, Inc.	2,000	2,000	2,000	-
Alleghany historical society	5,000	5,000	5,000	-
Alleghany Highlands CSA foster care	1,345,787	1,889,851	1,819,321	70,530
Social Services	474,739	474,739	345,569	129,170
Other contributions	5,400	5,400	5,400	-
Opioid recovery expenditures	-	96,386	58,851	37,535
Property tax relief for the elderly	37,500	37,500	47,961	(10,461)
Total welfare	\$ 1,888,130	\$ 2,528,580	\$ 2,301,806	\$ 226,774
Total health and welfare	\$ 2,113,911	\$ 2,754,361	\$ 2,512,082	\$ 242,279
Education:				
Other instructional costs:				
Contributions to Community College	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Contribution to City School Board	2,994,872	3,436,946	3,496,359	(59,413)
Total education	\$ 2,997,872	\$ 3,439,946	\$ 3,499,359	\$ (59,413)
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 1,607,746	\$ 1,660,190	\$ 1,613,867	\$ 46,323
Cultural enrichment:				
Senior center	\$ 118,509	\$ 101,365	\$ 91,426	\$ 9,939
Cemetery	355,428	335,256	202,017	133,239
League of older Americans	2,735	5,470	5,470	-
YMCA	3,500	3,500	3,500	-
Alleghany Highlands arts council	6,480	6,480	6,480	-
Alleghany Highlands arts/craft center	2,520	2,520	2,520	-

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Parks, recreation, and cultural: (Continued)				
Cultural enrichment: (Continued)				
Alleghany Historical Society	\$ 3,461	\$ 96,993	\$ 3,461	\$ 93,532
Total cultural enrichment	<u>\$ 492,633</u>	<u>\$ 551,584</u>	<u>\$ 314,874</u>	<u>\$ 236,710</u>
Library:				
Contribution to regional library	\$ 138,607	\$ 138,607	\$ 138,607	\$ -
Total parks, recreation, and cultural	<u>\$ 2,238,986</u>	<u>\$ 2,350,381</u>	<u>\$ 2,067,348</u>	<u>\$ 283,033</u>
Community development:				
Planning and community development:				
Planning commission	\$ 3,000	\$ 3,000	\$ 1,441	\$ 1,559
Workforce development	2,500	2,500	2,500	-
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	200	200	195	5
Economic development	261,776	413,090	224,180	188,910
Other planning and community development	-	50,000	50,000	-
Total planning and community development	<u>\$ 287,476</u>	<u>\$ 488,790</u>	<u>\$ 298,316</u>	<u>\$ 190,474</u>
Environmental management:				
Contribution to soil and water district	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Cooperative extension program:				
Extension office	\$ 7,695	\$ 7,695	\$ 7,695	\$ -
Total community development	<u>\$ 298,171</u>	<u>\$ 499,485</u>	<u>\$ 309,011</u>	<u>\$ 190,474</u>
Nondepartmental:				
Contingencies	\$ 300,000	\$ 3,738,051	\$ 3,136,664	\$ 601,387
Other nondepartmental	420,612	392,195	413	391,782
Total nondepartmental	<u>\$ 720,612</u>	<u>\$ 4,130,246</u>	<u>\$ 3,137,077</u>	<u>\$ 993,169</u>
Debt service:				
Principal retirement	\$ 1,481,409	\$ 4,481,409	\$ 4,606,612	\$ (125,203)
Interest and other fiscal charges	745,397	708,983	726,385	(17,402)
Bond issuance costs	-	13,006	13,006	-
Total debt service	<u>\$ 2,226,806</u>	<u>\$ 5,203,398</u>	<u>\$ 5,346,003</u>	<u>\$ (142,605)</u>
Total General Fund	<u>\$ 22,620,922</u>	<u>\$ 32,396,613</u>	<u>\$ 28,165,075</u>	<u>\$ 4,231,538</u>
Capital Projects Fund:				
City Capital Projects:				
Joint revenue sharing pad site	\$ -	\$ 1,020,932	\$ 1,020,932	\$ -
E-911 communication system	-	140,920	40,071	100,849
Total capital projects	<u>\$ -</u>	<u>\$ 1,161,852</u>	<u>\$ 1,061,003</u>	<u>\$ 100,849</u>
Total City Capital Projects Fund	<u>\$ -</u>	<u>\$ 1,161,852</u>	<u>\$ 1,061,003</u>	<u>\$ 100,849</u>
Total Primary Government	<u>\$ 22,620,922</u>	<u>\$ 33,558,465</u>	<u>\$ 29,226,078</u>	<u>\$ 4,332,387</u>

Other Statistical Section

Table 1

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water Department	Sewer Department	Solid Waste Department	Total
2024-25	\$ 2,158,669	\$ 348,741	\$ 5,198,459	\$ 3,871,718	\$ 2,361,958	\$ 3,254,614	\$ 2,015,887	\$ 1,703,734	\$ 700,338	\$ 2,009,985	\$ 1,917,550	\$ 3,142,022	\$ 28,683,675
2023-24	2,160,229	372,882	5,001,677	4,002,548	1,831,987	3,172,084	2,300,030	2,346,172	630,985	1,825,317	1,954,099	2,848,503	28,446,513
2022-23	2,059,853	312,757	3,986,725	3,215,232	2,914,894	3,618,133	1,968,976	247,509	626,962	1,791,435	1,657,358	2,706,888	25,106,722
2021-22	1,848,535	310,745	4,199,120	2,524,691	2,062,817	2,949,139	1,531,584	357,376	929,248	1,649,494	1,794,434	1,329,792	21,486,975
2020-21	1,973,555	285,912	4,064,575	5,253,287	2,461,954	2,804,990	1,773,009	290,692	697,453	1,694,954	1,817,185	1,395,865	24,513,431
2019-20	1,671,355	210,940	4,000,830	2,042,449	2,100,392	3,585,705	2,064,533	504,066	721,741	1,711,375	1,725,736	1,986,802	22,325,924
2018-19	1,796,717	210,420	4,190,785	2,616,848	1,986,049	3,739,401	1,929,019	132,906	787,415	1,515,469	1,767,744	1,798,195	22,490,968
2017-18	1,596,965	193,309	3,824,213	5,315,732	1,928,602	3,574,098	1,868,116	252,110	1,018,605	1,512,416	1,635,976	-	22,720,142
2016-17	1,844,066	175,314	3,498,357	3,030,315	1,869,565	4,402,502	1,817,301	139,329	872,594	1,263,423	1,606,706	-	20,519,472
2015-16	1,917,011	199,965	3,460,421	2,934,344	1,342,892	3,995,718	1,324,136	97,984	1,074,337	1,054,462	1,473,877	-	18,875,147

**City of Covington, Virginia
Government-Wide Revenues
Last Ten Fiscal Years**

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		
2024-25	\$ 6,126,086	\$ 3,969,940	\$ 863,841	\$ 11,289,259	\$ 4,838,612	\$ 759,949	\$ 583,039	\$ 759,480	\$ 29,190,206		
2023-24	5,420,447	6,775,218	945,221	10,782,423	4,652,876	876,987	1,177,962	776,119	31,407,253		
2022-23	5,821,050	7,021,786	1,606,902	10,676,170	4,553,219	251,862	502,764	799,182	31,232,935		
2021-22	5,841,702	3,294,608	327,867	10,320,929	4,362,187	28,813	367,241	803,624	25,346,971		
2020-21	5,967,380	4,432,625	556,220	10,009,099	4,124,558	153,946	75,074	831,269	26,150,171		
2019-20	6,369,994	3,042,172	560,134	9,168,292	3,974,923	101,713	93,435	843,577	24,154,240		
2018-19	6,476,138	3,339,954	278,646	8,837,051	4,094,054	122,172	87,514	858,084	24,093,613		
2017-18	5,687,638	3,812,846	523,817	8,635,037	3,847,681	96,348	105,896	856,277	23,565,540		
2016-17	5,601,467	2,750,744	43,472	8,389,499	3,789,785	92,931	190,770	893,492	21,752,160		
2015-16	5,048,173	2,525,991	9,090	8,137,262	3,647,128	32,364	543,348	884,099	20,827,455		

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
2024-25	\$ 2,223,268	\$ 348,741	\$ 4,847,793	\$ 3,874,393	\$ 2,512,082	\$ 3,499,359	\$ 2,067,348	\$ 309,011	\$ 1,061,003	\$ 3,137,077	\$ 2,332,997	\$ 26,213,072
2023-24	2,169,938	372,882	5,354,416	4,917,269	1,827,980	2,997,855	3,244,767	348,474	2,037,569	972,544	2,248,538	26,492,232
2022-23	2,123,183	312,757	5,155,960	4,604,919	1,739,058	3,013,277	2,680,119	215,615	73,926	233,561	2,200,820	22,353,195
2021-22	1,974,470	310,745	4,114,123	2,405,197	2,060,577	12,762,799	1,782,871	328,008	29,368	218,124	2,287,725	28,274,007
2020-21	2,115,013	285,912	4,066,711	3,031,627	2,461,437	11,170,109	1,608,753	290,692	2,576,730	9,333	2,103,059	29,719,376
2019-20	1,818,377	210,940	3,781,616	2,197,165	2,113,135	11,215,189	1,957,001	504,066	414,963	1,100	2,106,243	26,319,795
2018-19	1,975,272	210,420	4,131,406	2,619,371	2,116,379	11,389,063	1,874,324	232,781	435,649	14,683	2,091,683	27,091,031
2017-18	1,713,498	193,309	3,814,167	4,920,549	1,937,894	11,182,920	1,736,080	252,110	4,331,586	5,840	1,990,332	32,078,285
2016-17	1,897,928	175,314	3,355,693	2,939,220	1,910,817	11,445,748	1,689,096	139,329	381,951	144,930	1,870,305	25,950,331
2015-16	1,949,443	199,965	4,007,619	3,025,459	1,352,724	10,428,972	2,139,810	97,984	308,714	22,730	2,049,392	25,582,812

(1) Includes all governmental funds of the Primary Government and its Discretely Presented Component Unit for years prior to fiscal year 2023. The Covington City School Board merged with Alleghany County Public Schools on July 1, 2022 to form Alleghany Highlands School Board.

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

(3) For Fiscal Year 2015-16, excludes bond issuance cost of \$48,867. For Fiscal Year 2017-18, excludes bond issuance cost of \$45,000. For fiscal year 2020-21, excludes bond issuance cost of \$7,500. For fiscal year 2021-2022, excludes bond issuance cost of \$181,932. For fiscal year 2024-25, excludes refunded amount of \$3,000,000 and bond issuance cost of \$13,006.

**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
2024-25	\$ 11,377,806	\$ 4,838,612	\$ 34,757	\$ 7,303	\$ 728,350	\$ 606,952	\$ 572,911	\$ 967,862	\$ 5,034,798	\$ 24,169,351
2023-24	10,771,179	4,652,876	18,371	2,875	841,683	382,328	1,084,921	543,456	7,963,521	26,261,210
2022-23	10,714,032	4,553,219	11,222	1,690	233,451	415,642	375,097	272,641	8,362,244	24,939,238
2021-22	10,347,104	4,362,187	22,572	4,520	52,327	528,190	412,186	65,864	14,258,398	30,053,348
2020-21	10,000,965	4,124,558	13,673	2,273	152,599	456,045	143,401	49,563	14,635,287	29,578,364
2019-20	9,138,139	3,974,923	19,087	3,579	93,383	462,957	235,509	57,000	12,484,537	26,469,114
2018-19	8,796,076	4,094,054	18,006	3,324	112,814	532,436	156,651	50,663	12,393,696	26,157,720
2017-18	8,726,512	3,847,681	38,143	7,061	89,207	1,597,226	204,094	74,589	12,858,781	27,443,294
2016-17	8,326,893	3,789,785	7,849	4,709	88,565	1,456,599	273,550	102,615	11,322,775	25,373,340
2015-16	8,060,434	3,647,128	11,397	2,934	28,209	1,358,395	559,184	85,491	10,554,857	24,308,029

(1) Includes all governmental funds of the Primary Government and its Discretely Presented Component Unit for years prior to fiscal year 2023. The Covington City School Board merged with Alleghany County Public Schools on July 1, 2022 to form Alleghany Highlands School Board.

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

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		Percent of Delinquent Taxes to Tax Levy
						Total Tax Collections	Outstanding Delinquent Taxes (1,2)	
2024-25	\$ 11,159,269	\$ 11,214,342	100.49%	\$ 6,875	11,221,217	100.56%	\$ 656,509	5.88%
2023-24	11,074,318	10,580,244	95.54%	47,664	10,627,908	95.97%	777,855	7.02%
2022-23	10,890,866	10,912,098	100.19%	155,168	11,067,266	101.62%	691,434	6.35%
2021-22	10,656,943	10,499,764	98.53%	238,910	10,738,674	100.77%	722,053	6.78%
2020-21	10,270,769	10,011,483	97.48%	196,901	10,208,384	99.39%	699,710	6.81%
2019-20	9,578,402	9,383,237	97.96%	187,709	9,570,946	99.92%	732,257	7.64%
2018-19	9,223,782	9,047,685	98.09%	192,428	9,240,113	100.18%	681,446	7.39%
2017-18	8,995,492	8,864,919	98.55%	241,157	9,106,076	101.23%	633,196	7.04%
2016-17	8,762,926	8,597,806	98.12%	178,911	8,776,717	100.16%	706,988	8.07%
2015-16	8,515,950	8,355,485	98.12%	142,120	8,497,605	99.78%	632,340	7.43%

(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.

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

Fiscal Year	Real Estate (1)	Personal Property and Mobile Homes (3)	Machinery and Tools (4)	Public Utility (2)		Total
				Real Estate	Personal Property	
2024-25	\$ 355,493,100	\$ 68,592,330	\$ 153,641,140	\$ 263,047,311	\$ -	\$ 840,773,881
2023-24	355,915,700	67,212,470	163,342,540	181,074,529	-	767,545,239
2022-23	300,538,600	69,120,980	156,819,800	218,044,452	-	744,523,832
2021-22	294,243,024	77,556,938	142,863,071	252,477,381	-	767,140,414
2020-21	296,061,600	56,485,905	136,534,670	240,961,221	-	730,043,396
2019-20	286,904,100	54,114,100	124,530,900	251,428,671	-	716,977,771
2018-19	286,739,177	54,043,442	124,530,900	251,428,671	-	716,742,190
2017-18	286,469,600	28,968,320	57,467,260	280,844,236	12,505	653,761,921
2016-17	286,698,566	29,259,446	54,576,920	281,858,971	12,555	652,406,458
2015-16	286,142,709	29,184,062	51,151,310	275,694,537	61,141	642,233,759

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

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

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

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

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

Fiscal Year	Real Estate	Mobile Homes	Personal Property (2)	Machinery and Tools (2)
2024-25	\$ 0.85	\$ 0.85	\$ 3.08	\$ 2.76
2023-24	0.85	0.85	3.08	2.76
2022-23	0.85	0.85	3.08	2.76
2021-22 (4)	0.85	0.85	3.08	2.76
2020-21	0.80	0.80	3.08	2.76
2019-20	0.80	0.80	3.08	2.76
2018-19 (3)	0.80	0.80	3.08	2.76
2017-18	0.76	0.76	5.60	5.52
2016-17	0.75	0.75	5.60	5.52
2015-16	0.73	0.73	5.60	5.52

(1) Per \$100 of assessed value.

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

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

(4) Rate shown for mobile homes is for 1st half 2022. The 2nd half 2021 is the same as rates shown for 2020-2021.

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
2024-25	5,717	\$ 840,774	\$ 21,453,738	2.55%	\$ 3,753
2023-24	5,717	767,545	21,952,469	2.86%	3,840
2022-23	5,717	744,524	21,320,720	2.86%	3,729
2021-22	5,717	767,140	22,627,195	2.95%	3,958
2020-21	5,737	730,043	25,272,099	3.46%	4,405
2019-20	5,961	716,978	24,306,355	3.39%	4,078
2018-19	5,961	716,742	25,591,444	3.57%	4,293
2017-18	5,961	653,762	26,834,679	4.10%	4,502
2016-17	5,961	652,406	25,434,047	3.90%	4,267
2015-16	5,961	642,234	25,591,275	3.98%	4,293

(1) Bureau of the Census.

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

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

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
2024-25	\$ 1,606,612	\$ 726,385	\$ 2,332,997	\$ 26,213,072	8.90%
2023-24	1,561,449	687,089	2,248,538	26,492,232	8.49%
2022-23	1,458,093	670,788	2,128,881	22,353,195	9.52%
2021-22	1,577,246	710,479	2,287,725	28,274,007	8.09%
2020-21	1,434,952	668,107	2,103,059	29,719,376	7.08%
2019-20	1,363,113	702,837	2,065,950	26,319,795	7.85%
2018-19	1,322,490	740,265	2,062,755	27,091,031	7.61%
2017-18	1,207,659	782,673	1,990,332	32,078,285	6.20%
2016-17	1,093,100	777,205	1,870,305	25,950,331	7.21%
2015-16	979,534	1,067,484	2,047,018	25,582,812	8.00%

- (1) Includes General fund of the Primary Government and Operating Fund of the Discretely Presented Component Unit - School Board for years prior to fiscal year 2023. The Covington City School Board merged with Alleghany County Public Schools on July 1, 2022 to form Alleghany Highlands School Board.
- (2) Excludes bond issuance and other costs.
- (3) Excludes refinancing of bond anticipation note and refunding of general obligation bond.

City of Covington, Virginia
Computation of Legal Debt Margin
At June 30, 2025

Legal Debt Limit:		
10% of Assessed Value of Taxable Real Estate	\$355,493,100	\$ 35,549,310
Deduct:		
Debt Payable		21,453,738
Legal Margin for Creation of Additional Debt		<u>\$ 14,095,572</u>

Table 11

City of Covington, Virginia
 Pledged Revenue Coverage
 Water and Sewer Funds
 Last Ten Fiscal Years*

Fiscal Year	Operating Revenues	Nonoperating Revenues (2)	Transfers	Gross Revenues	Less: Operating Expenses (1)	NET AVAILABLE		Coverage
						Revenues for Debt Service	Revenues for Debt Service	
						Principal	Interest	
2025	\$ 3,989,426	\$ 251,599	\$ (271,815)	\$ 3,969,210	\$ 2,719,795	\$ 1,249,415	\$ 102,516	106%

(1) Excludes depreciation expense.

(2) Excludes capital contribution and construction grants

*Table is intended to show information for 10 years. Additional years will be presented as information becomes available.

COMPLIANCE SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Covington, Virginia's basic financial statements and have issued our report thereon dated December 2, 2025.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Covington, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Purpose of This Report

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

Polina, Faver, Cox Associates

Blacksburg, Virginia
December 2, 2025



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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Covington, Virginia's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Covington, Virginia's major federal programs for the year ended June 30, 2025. City of Covington, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, 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, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Covington, Virginia and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Covington, Virginia's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City of Covington, Virginia's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Covington, Virginia's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Covington, Virginia's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Covington, Virginia's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Covington, Virginia's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Covington, Virginia's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Polina, Fane, Cox Associates

Blacksburg, Virginia
December 2, 2025

City of Covington, Virginia
Schedule of Expenditures of Federal Awards (SEFA)
For the Year Ended June 30, 2025

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF TREASURY:			
Pass Through Payments:			
<i>Virginia Department of Environmental Quality:</i>			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	SCS-16	\$ 337,496
<i>Virginia Department of Criminal Justice Services:</i>			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	508516-LE	<u>53,500</u> \$ 390,996
DEPARTMENT OF JUSTICE:			
Direct Payments:			
Bulletproof Vest Partnership Program	16.607	Not applicable	<u>\$ 2,975</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA):			
Direct Payments:			
Assistance to Firefighters Grant	97.044	Not applicable	<u>\$ 61,905</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Pass Through Payments:			
<i>Virginia Department of Housing and Community Development:</i>			
Community Development Block Grant/State's Program and Non-entitlement Grants in Hawaii	14.228	CAMS 23PG11	<u>\$ 50,000</u>
DEPARTMENT OF HOMELAND SECURITY:			
Pass Through Payments:			
<i>Virginia Department of Emergency Management:</i>			
Emergency Management Performance Grants	97.042	124379	<u>\$ 9,346</u>
DEPARTMENT OF TRANSPORTATION:			
Pass Through Payments:			
<i>Virginia Department of Transportation:</i>			
Highway Planning and Construction	20.205	EN22-107-172, P101, R201	<u>\$ 14,482</u>
ENVIRONMENTAL PROTECTION AGENCY:			
Pass Through Payments:			
<i>Virginia Resource Authority:</i>			
ARRA - Capitalization Grants for Clean Water State Revolving Fund	66.458	C-515645E BIL-24L-22	\$ 392,455 <u>220,000</u> \$ 612,455
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass Through Payments:			
<i>Virginia Department of Social Services:</i>			
Mary Lee Allen Promoting Safe and Stable Families Program	93.556	0950124	\$ 1,070
Temporary Assistance for Needy Families	93.558	0400124, 0400125	2,121
Foster Care - Title IV-E	93.658	1100124, 1100125	6,936
Adoption Assistance	93.659	1120124, 1120125	31,487
Social Services Block Grant	93.667	1000124, 1000125	<u>15,711</u>
Total Department of Health and Human Services			<u>\$ 57,325</u>
Total Expenditures of Federal Awards			<u>\$ 1,199,484</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE 1--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Covington, Virginia under programs of the federal government for the year ended June 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Covington, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Covington, Virginia.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.
- (3) The City did not elect the 15% de minimis indirect cost rate because they only request direct costs for reimbursement.

NOTE 3--SUBRECIPIENTS:

The City did not have any subrecipients for the year ended June 30, 2025.

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	\$ 249,533
Water Fund	220,000
Sewer Fund	729,951
Total Primary Government	<u>\$ 1,199,484</u>
Total Federal Expenditures per Basic Financial Statements	<u>\$ 1,199,484</u>

City of Covington, Virginia
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2025

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of major programs:

<u>Assistance Listing #</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
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Auditee qualified as low-risk auditee?	Yes
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Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Prior Year Findings

There were no findings reported in the prior year.