

CITY OF COVINGTON, VIRGINIA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2011

CITY OF COVINGTON, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2011

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INTRODUCTORY SECTION

CITY OF COVINGTON, VIRGINIA

CITY COUNCIL

Earl L. Brown, Vice-Mayor William B. Zimmerman, Jr.	Robert K. Bennett, II, Mayor	Stephanie R. Clark Kim L. Warlitrner
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CITY SCHOOL BOARD

Richard Fuhrman, Vice-Chairman Eddy Clemons	Thomas D. Warlitrner, Chairman	John E. Woodzell Ronald Morrisette
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OTHER OFFICIALS

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

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Covington, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the City of Covington, Virginia's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Covington, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the financial statements, the City of Covington, Virginia adopted the provisions of *GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011, on our consideration of the City of Covington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical

context. We have applied certain limited procedures to the management's discussion and analysis and schedules of funding progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 management's discussion and analysis and schedules of funding progress 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Virginia's, basic financial statements as a whole. The introductory section, supplementary financial statements, supporting schedules, and other statistical information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The introductory section, supplementary financial statements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section, supporting schedules, and other statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

Robinson, Turner, Cox Associates

Christiansburg, Virginia
November 22, 2011

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

The management of the City of Covington, Virginia presents this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented in this document to be used in conjunction with the transmittal letter, financial statements, and notes to the financial statements that are included in this document.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) other supplementary information in addition to the basic financial statements themselves.

Components of the Financial Section

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

Management's Discussion and Analysis
(MD&A)

Basic Financial Statements
Government-Wide Fund Financial
Financial Statements Statements

Notes to the Basic Financial Statements

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

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

GOVERNMENT-WIDE STATEMENTS

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The government-wide financial statements include the City (known as the *primary government*) as well as funds of the Covington City School Board (known as the *component unit*). Financial information for this component unit is reported separately from the financial information presented for the primary government.

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

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

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

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

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

FUND FINANCIAL STATEMENTS

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

The City has three types of funds:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER SUPPLEMENTAL INFORMATION

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

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

AUDIT STRUCTURE

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

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

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

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

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

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

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

VI. Compliance

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

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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City of Covington has presented its financial statements showing a comparative analysis of the government-wide statements in the Management Discussion Analysis Report under the reporting model required by GASB Statement No. 34.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets for the year ended June 30, 2011.

**Table 1
Summary of Net Assets
As of June 30, 2011 (Exhibit 1 of the Audit)**

	Governmental Activities		Business-Type Activities		Total Primary Gov't		Component Unit (School Board)	
	2010	2011	2010	2011	2010	2011	2010	2011
Assets								
Current and other assets	\$9,913,387	10,306,540	\$2,215,377	3,136,978	\$12,228,764	13,443,518	\$1,428,969	\$1,407,420
Capital Assets	31,518,680	30,516,892	7,339,882	9,261,353	38,858,562	39,778,245	960,253	980,215
Total Assets	\$41,432,067	\$40,823,432	\$9,655,259	\$12,398,331	\$51,087,326	\$53,221,763	\$2,389,222	\$2,387,635
Liabilities								
Current and other Liabilities	\$3,173,655	3,220,897	\$197,368	892,673	\$3,371,023	4,113,570	\$1,128,625	1,072,602
Long-Term Liabilities	35,571,906	35,621,363	1,411,947	2,198,744	36,983,853	37,820,107	540,513	581,427
Total Liabilities	\$38,745,561	\$38,842,260	\$1,609,315	\$3,091,417	\$40,354,876	\$41,933,677	\$1,669,138	\$1,654,029
Net Assets								
Invested in Capital Assets net of debt	\$2,584,988	1,463,576	\$6,044,441	7,196,083	\$8,629,429	8,659,659	\$960,253	980,215
Restricted net Assets	0	620,402	0	0	0	620,402	0	0
Unrestricted net Assets	101,518	<102,806>	2,001,503	2,110,831	2,103,021	2,008,025	<240,169>	<246,609>
Total Net Assets	\$2,686,506	\$1,981,172	\$8,045,944	\$9,306,914	\$10,732,450	\$11,288,086	\$720,084	\$733,606

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Financial Highlights of the Statement of Net Assets

At the close of the fiscal year ended June 30, 2010, the assets of the City and its component-unit exceeded liabilities by \$11,452,534 and for fiscal year ended June 30, 2011 the assets of the City and its Component Unit exceeded liabilities by \$12,021,692 (Exhibit 1 of the Audit), which represents an increase in the amount of \$569,158. Of this amount for the fiscal year ended June 30, 2011, \$1,761,416 may not be used to meet the government's ongoing obligations to creditors and citizens within each respective activity. For example, the \$<246,609> unrestricted net assets in the Component Unit (School Board) cannot be used to support Governmental Activities or Business-type Activities.

*Net assets of the City's Governmental Activities for the government-wide statement for the fiscal year ended June 30, 2010 were \$2,686,506 and for the fiscal year ended June 30, 2011 were \$1,981,172 (Exhibit 1 of the Audit), which represents a decrease in the amount of \$<705,334> in net assets. These amounts are unrestricted.

*Net assets of the City's Business-Type Activities for the fiscal year ended June 30, 2010 were \$8,045,944 and for the fiscal year ended June 30, 2011 were \$9,306,914 (Exhibit 1 of the Audit), which represents an increase in the amount of \$1,260,970. These amounts are unrestricted.

*Net assets of the Component Unit (School Board) for the fiscal year ended June 30, 2010 were \$720,084 and for the fiscal year ended June 30, 2011 were \$733,606 (Exhibit 1 of the Audit), which represents an increase in the amount of \$13,522. Due to legislative restrictions, the School Operating Fund must have a zero balance at the end of the fiscal year. Therefore, only special funds (School Textbook, Grants, and Governor's School) are allowed to carry monies into the following year.

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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Summary of Activities

The following table shows the revenue and expenses of the governmental and business-type activities and component unit (School Board) for the fiscal year ended June 30, 2011.

Table 2 (Exhibit 2 of the Audit) Statement of Activities as of June 30, 2011

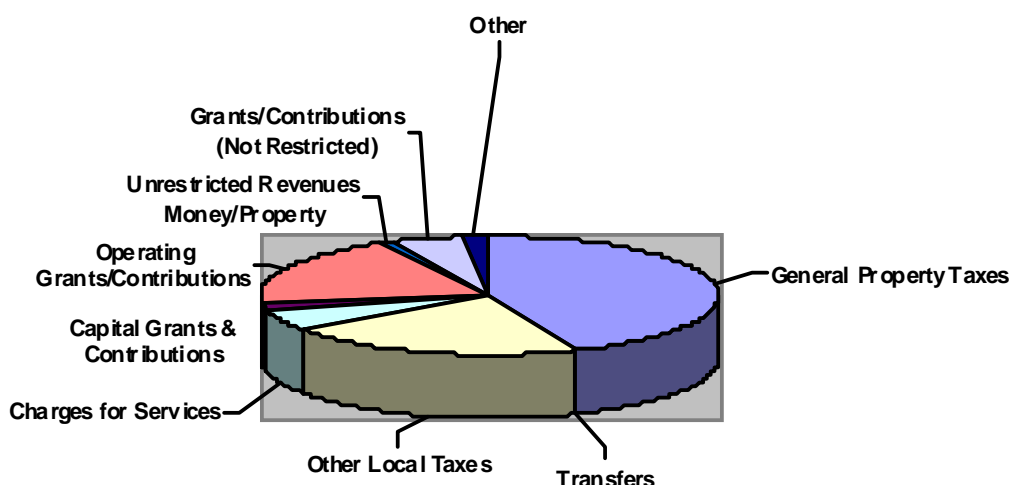
	Governmental Activities		Business-Type Activities		Total Primary Government		Comp Unit (School Board)	
	2010	2011	2010	2011	2010	2011	2010	2011
Revenues								
Program Revenues:								
Charges for Services	\$874,329	1,046,035	\$3,291,559	\$3,124,344	\$4,165,888	\$4,170,379	\$115,717	\$117,696
Operating Grants/ Contrib.	2,618,316	3,304,823	0	0	2,618,316	3,304,823	6,267,411	5,797,554
Capital Grants and Contrib.	34,430	33,330	41,364	651,484	75,794	684,814	0	0
General Revenues:								
General Property Taxes	7,051,615	7,184,718	0	0	7,051,615	7,184,718	0	0
Other Local Taxes	3,170,222	3,445,125	0	0	3,170,222	3,445,125	0	0
Other (loss/gain capital assets/transfers)	291,309	336,137	<291,309>	<329,126>	0	7,011	0	0
Unrestricted revenues money/property	66,549	66,865	0	0	66,549	66,865	1,380	1,388
Payments from City of Covington	0	0	0	0	0	0	3,550,325	4,030,586
Miscellaneous Grants/Contributions (Not Restricted)	55,222	45,133	131,445	21,681	186,667	66,814	156,524	246,879
	896,005	917,297	0	0	896,005	917,297	0	0
Total Revenues	\$15,057,997	\$16,379,463	\$3,173,059	\$3,468,383	\$18,231,056	\$19,847,846	\$10,091,357	\$10,194,103
Expenses:								
General Gov't Admin	\$1,483,169	\$1,534,458	\$0	\$0	\$1,483,169	\$1,534,458	\$0	\$0
Judicial Administration	122,901	134,998	0	0	122,901	134,998	0	0
Public Safety	2,819,474	2,955,125	0	0	2,819,474	2,955,125	0	0
Public Works	1,913,115	3,425,828	2,321,147	2,207,413	4,234,262	5,633,241	0	0
Health and Welfare	1,700,110	1,765,361	0	0	1,700,110	1,765,361	0	0
Education	3,825,555	4,683,660	0	0	3,825,555	4,683,660	10,579,917	10,180,581
Parks, Recreation & Cultural	1,320,420	1,307,295	0	0	1,320,420	1,307,295	0	0
Community Development	99,201	79,316	0	0	99,201	79,316	0	0
Interest on Long-Term Debt	1,256,643	1,198,756	0	0	1,256,643	1,198,756	0	0
Total Expenditures	\$14,540,588	\$17,084,797	\$2,321,147	\$2,207,413	\$16,861,735	\$19,292,210	\$10,579,917	\$10,180,581
Change in Net Assets	\$517,409	\$<705,334>	\$851,912	\$1,260,970	\$1,369,321	\$555,636	\$<488,560>	\$13,522
Transfers	0	0	0	0	0	0	0	0
Beginning Net Assets	\$2,169,097	\$2,686,506	\$7,194,032	\$8,045,944	\$9,363,129	\$10,732,450	\$1,208,644	\$720,084
Ending Net Assets	\$2,686,506	\$1,981,172	\$8,045,944	\$9,306,914	\$10,732,450	\$11,288,086	\$720,084	\$733,606

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Governmental Activities

The City's total revenues from governmental activities were \$16,379,463 fiscal year ended June 30, 2011. The City's largest source of general revenue is property taxes, composed of real estate and personal property taxes, in the amount of \$7,184,718. The next largest source of general revenue is other local taxes, composed of local sales taxes, consumer's utility taxes, business license taxes, consumption taxes, franchise license taxes, motor vehicle licenses, lodging and meals taxes, tobacco, and recordation taxes. See the chart below.

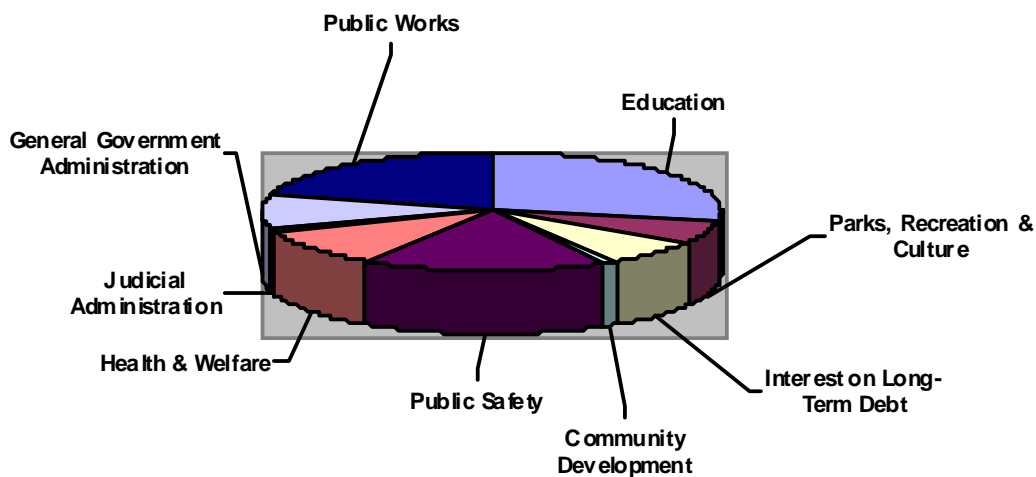
**Sources of Revenue for Fiscal Year 2011
Governmental Activities**



The City's total expenses for governmental activities were \$17,084,797 for the fiscal year ended June 30, 2011. The City's largest area of expense is education in the amount of \$4,683,660. Education continues to be one of the City's highest priorities and commitments as evidenced by the City's contribution. The next two largest areas of expenses are Public Safety in the amount of \$2,955,125 and Public Works in the amount of \$3,425,828. These two areas provide services and protection to the citizens of The City of Covington. Police protection and fire and rescue services continue to be of the highest priorities and commitments as evidenced by the City's contributions. Net asset in the governmental activities decreased \$705,334. See the chart on the following page.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

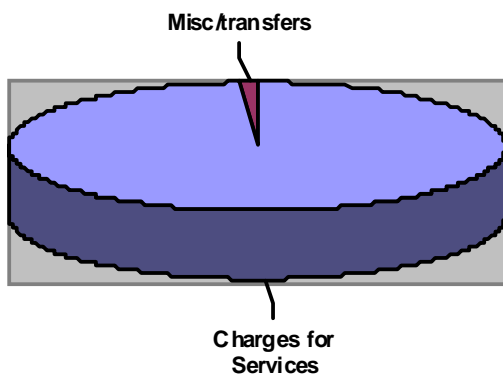
**Expenditures by Category for Fiscal Year
2011**



Business-Type Activities

The City's total revenue from business-type activities was \$3,468,383 for the fiscal year ended June 30, 2011. The City's largest source of revenue is charges for services in the amount of \$3,124,344. See chart below.

**Sources of Revenue for Fiscal
Year 2011**

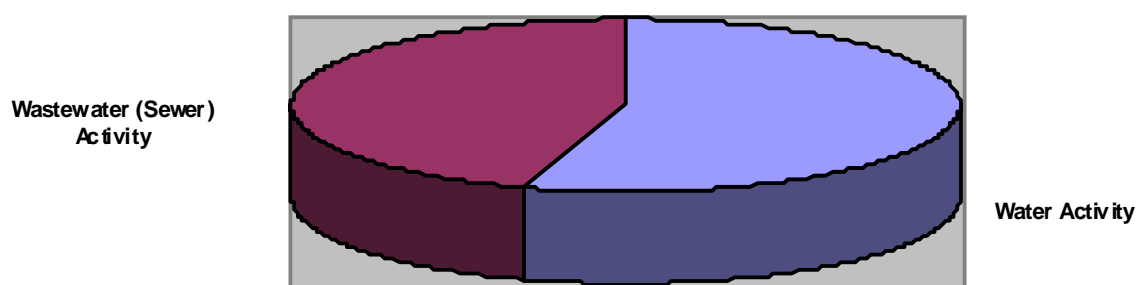


**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

The City's total expenses for business-type activities were \$2,207,413. The largest area of expense is the Water Filtration Plant and Water Distribution in the amount of \$1,213,104. The next area of expense is the Sewer Plant and Sewer Distribution in the amount of \$994,309. Net assets in the business-type activities increased \$1,260,970. See chart below.

**Expenditures by Category for Fiscal
Year 2011**

Business-Type Activities

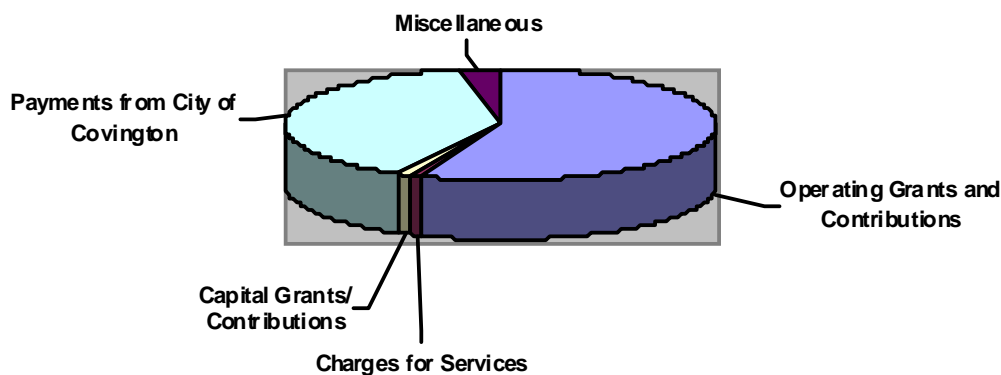


Component Unit (School Board)

The City's total revenue from component unit (School Board) activities was \$10,194,103 for the fiscal year ended June 30, 2011. The City's largest source of revenue is operating grants and contributions in the amount of \$5,797,554. See chart below.

**Sources of Revenue for Fiscal Year
2011**

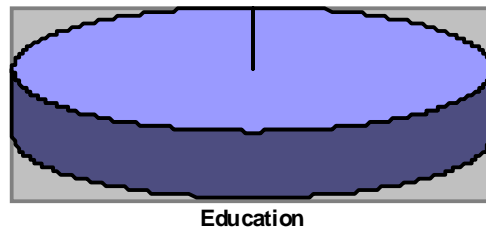
Component Unit (School Board)



**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

The City's total expenses for component unit (School Board) were \$10,180,581. Net assets in the component unit (School Board) increased by \$13,522. See chart below.

**Expenditures by Category for Fiscal Year
2011
Component Unit (School Board)**



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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Highlights of the Statement of Activities

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

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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Table 3 Activities – Program Revenues vs. Reliance on General Revenues to Fund Expenditures as of June 30, 2011 (Exhibit 2 of the Audit)

Activities	Program Revenues		Reliance on General Revenues		Total Expenditures	
	2010	2011	2010	2011	2010	2011
Governmental Activities:						
General Administration	\$185,741	\$162,517	\$1,297,428	\$1,371,941	\$1,483,169	\$1,534,458
Judicial Administration	0	0	122,901	134,998	122,901	134,998
Public Safety	655,384	1,213,222	2,164,090	1,741,903	2,819,474	2,955,125
Public Works	1,518,144	1,732,669	394,971	1,693,159	1,913,115	3,425,828
Health & Welfare	1,063,351	1,151,637	636,759	613,724	1,700,110	1,765,361
Education	0	0	3,825,555	4,683,660	3,825,555	4,683,660
Parks, Recreation & Cultural	68,961	89,663	1,251,459	1,217,632	1,320,420	1,307,295
Community Development	35,494	34,480	63,707	44,836	99,201	79,316
Interest on Long-Term Debt	0	0	1,256,643	1,198,756	1,256,643	1,198,756
Total Governmental Activities	\$3,527,075	\$4,384,188	\$11,013,513	\$12,700,609	\$14,540,588	\$17,084,797
Business-Type Activities						
Water	\$1,682,908	\$1,605,924	\$<360,252>	\$<392,820>	\$1,322,656	\$1,213,104
Wastewater (Sewer)	1,650,015	2,169,904	<651,524>	<1,175,595>	998,491	994,309
Total Business-Type Activities	\$3,332,923	\$3,775,828	\$<1,011,776>	\$<1,568,415>	\$2,321,147	\$2,207,413
Total Primary Government	\$6,859,998	\$8,160,016	\$10,001,737	\$11,132,194	\$16,861,735	\$19,292,210
Component Unit (School Board):						
Education	\$6,383,128	\$5,915,250	\$4,196,789	\$4,265,331	\$10,579,917	\$10,180,581
Total Component Unit	\$6,383,128	\$5,915,250	\$4,196,789	\$4,265,331	\$10,579,917	\$10,180,581
Totals	\$13,243,126	\$14,075,266	\$14,198,526	\$15,397,525	\$27,441,652	\$29,472,791

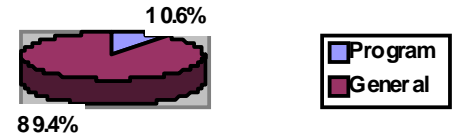
Expenditures:

Government Activities	Business-Type Activities	Primary Government	Component Unit	Total
\$17,084,797	\$2,207,413	\$19,292,210	\$10,180,581	\$29,472,791

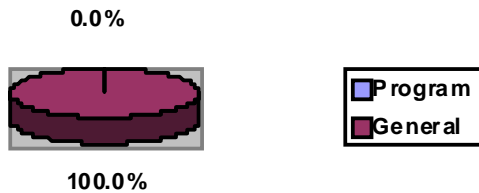
**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

General Government Administration is 10.6% supported by Program Revenues and 89.4% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia for the voting function, tax collection and assessment functions. This category includes general and financial administration, taxing and collection functions, and voting functions.

**GOV'T ACTIVITIES BY
REVENUE SOURCE
GENERAL GOV'T ADMINISTRATION**



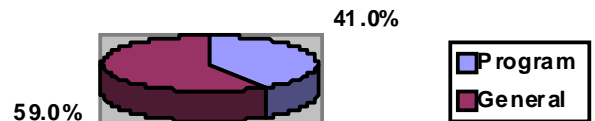
**GOV'T ACTIVITIES BY
REVENUE SOURCE
JUDICIAL ADMINISTRATION**



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

Public Safety is 41.0% supported by Program Revenues and 59.0% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia and from County of Alleghany for Fire and First Aid Protection. This function includes law enforcement, fire and rescue, inspections, animal control, and emergency services. Also, sheriff law enforcement, correction and detention, and probation are joint operations with the County of Alleghany.

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



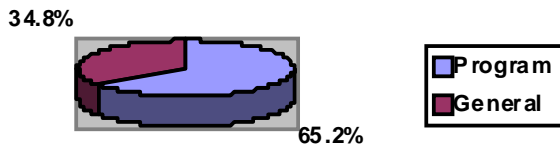
**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Public Works is 50.6% supported by Program Revenues and 49.4% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia and fees from landfill charges and waste collection and disposal charges. This category includes engineering, streets, street lights, snow and ice removal, traffic engineering, street cleaning, refuse collection, refuse disposal, recycling, buildings and grounds, and motor vehicular maintenance.

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



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



Health and Welfare is 65.2% supported by Program Revenues and 34.8% Supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia. This category includes support to local health department, free clinic, community service board, human service transportation system, state and local hospital program, TAP, social services (joint operations with the County of Alleghany, who bills the City of Covington for their share of expenses after netting off revenues received from State & Federal sources), Safehomes, Jackson River Enterprises, Second Harvest Food Bank, and CSA Foster Care Program.

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

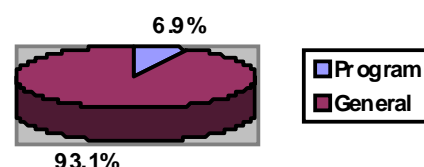
Education is 0.0% supported by Program Revenues and 100.0 % supported by General Revenues. On the Statement of Activities (Exhibit 2 of the Audit) local education is separated from the School Board activities. This chart represents local funds and operating grants and contributions used to support City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



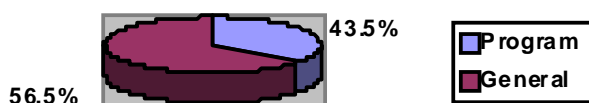
**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Parks, Recreation, and Cultural Activities are 6.9% supported by Program Revenues and 93.1% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia for support of the Alleghany Highlands Arts & Crafts Center and Alleghany Highlands Arts Council. This category includes parks and recreation, senior citizens center, cemetery, League of Older Americans, Alleghany Highlands Arts Council, Alleghany Highlands Arts & Crafts Center, Virginia Museum of Transportation, and Regional Library.

**GOVT ACTIVITIES BY
REVENUE SOURCE
PARKS, RECREATION &
CULTURAL**



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



Community Development is 43.5% supported by Program Revenues and 56.5% supported by General Revenues. Program Revenue is mostly received by capital grants. This category includes planning commission, redevelopment/housing authority, zoning board, economic development, employment/training consortium, DSL Community College, Mountain Soil/Water Conservation District, and Virginia Cooperative Services.

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

**GOVT ACTIVITIES BY
REVENUE SOURCE
INTEREST ON LONG-TERM DEBT**



**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

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

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



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

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



Component Unit (School Board) is 58.1% supported by Program Revenues and 41.9% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia, federal programs, and grants.

**COMPONENT UNIT ACTIVITIES
BY REVENUE SOURCE
EDUCATION**



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

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Government Funds

The focus of Covington's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available at the end of a fiscal year. The governmental funds include the general fund and other governmental funds, which is comprised of the special revenue funds and capital project funds.

The General Fund is the chief operating fund of the City. The fund balance at the end of FY 2010 was in the amount of \$2,859,119 and at the end of FY 2011 was in the amount of \$3,543,131, which represents an increase in the amount of \$684,012. Property taxes generated the majority of General Fund Revenues, which totaled \$7,058,693 in FY 2010 and totaled \$7,149,152 in FY 2011, which represents an increase of \$90,459. At the end of FY 2010, total revenues in the General Fund were \$14,929,058 and at the end of FY 2011 were \$16,020,796, which represents an increase of \$1,091,738. At the end of FY 2010 total expenditures in the General Fund were \$15,017,662 and at the end of FY 2011 were \$15,309,707, which represents an increase of \$292,045. This resulted at the end of FY 2010 excess expenditures over revenues in the amount of \$<88,604> and at the end of FY 2011 excess revenue over expenditures in the amount of \$711,089. At the end of FY 2010 excess expenditures over revenues plus other financing sources resulted in a net change in fund balance in the amount of \$<40,570> and at the end of FY 2011 excess revenue over expenditures plus other financing sources resulted in a net change in fund balance in the amount of \$684,012. At the end of FY 2010, this amount \$<40,570> plus the beginning fund balance in the amount of \$2,899,689 resulted in an ending fund balance in the amount of \$2,859,119 and at the end of FY 2011, this amount \$684,012 plus the beginning fund balance in the amount of \$2,859,119 resulted in an ending fund balance in the amount of \$3,543,131. See the charts on the following page.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

SUMMARY OF FUND FINANCIAL STATEMENTS

Changes in Fund Balances

Condensed Information – Governmental Funds

(Exhibit 5 of the Audit)

	General 2010	General 2011
Total Revenues	\$14,929,058	\$16,020,796
Total Expenditures	15,017,662	15,309,707
Excess (deficiency) of Revenues over (under) Expenditures	\$<88,604>	\$711,089
Other Financing Sources	\$48,034	\$<27,077>
Net Change in Fund Balance	\$<40,570>	\$684,012
Fund Balance – Beginning	2,899,689	2,859,119
Fund Balance – Ending	\$2,859,119	\$3,543,131

Reconciliation of Governmental Funds to Statement of Net Assets

(Exhibit 4 of the Audit)

	2010	2011
Total Fund Balances per Exhibit 3 – Governmental Funds	\$6,308,959	\$6,661,426
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	31,518,680	30,516,892
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds	285,164	320,730
Certain items reported as expenditures in the fund statement are deferred and shown as assets on the statement of net assets	0	494,152
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	<35,426,297>	<36,012,028>
Net Assets of governmental activities	\$2,686,506	\$1,981,172

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Proprietary Fund

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

Water Fund

The Water Fund at the end of FY 2010 had net operating revenues in the amount of \$1,687,471 total operating expenses in the amount of \$<1,295,279> and non-operating revenues expenses and transfers out in the amount of \$<23,748>, which resulted in a change of net assets in the amount of \$368,444. The Water Fund at the end of FY 2011 had operating revenues in the amount of \$1,612,458, total operating expenses in the amount of \$<1,191,037>, and non-operating revenues expenses and transfers out the amount of \$<161,320>, which resulted in a change of net assets in the amount of \$260,101.

Sewer Fund

The Sewer Fund at the end of FY 2010 had operating revenues in the amount of \$1,610,751, total operating expenses in the amount of \$<957,076>, and non-operating revenues expenses and transfers out the amount of \$<170,207>, which resulted in a change of net assets in the amount of \$483,468. The Sewer Fund at the end of FY 2011 had operating revenues in the amount of \$1,533,567, total operating expenses in the amount of \$<960,845>, and non-operating revenues expenses, capital contributions and construction grants in the amount of \$650,784, and transfers in/out in the amount of \$<222,637>, which resulted in a change of net assets in the amount of \$1,000,869.

Motor Vehicle Internal Services Fund

The Motor Vehicle Internal Services Fund at the end of FY 2010 had operating revenues in the amount of \$0, total operating expenses in the amount of \$<0>, and non-operating revenues expenses and transfers out the amount of \$<0>, which resulted in a change of net assets in the amount of \$0. The Motor Vehicle Internal Services Fund (new) at the end of FY 2011 had operating revenues in the amount of \$172,132, total operating expenses in the amount of \$<204,734>, and non-operating revenues expenses, capital contributions and construction grants in the amount of \$0, and transfers in/out in the amount of \$32,602, which resulted in a change of net assets in the amount of \$0.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

GENERAL FUND BUDGETARY HIGHLIGHTS

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

	Original Budget	Amended Budget	Actual
Revenues:			
Taxes	10,434,948	10,434,948	10,594,277
Intergovernmental	4,766,815	5,627,896	4,255,450
Other	1,130,307	1,223,557	1,171,069
Bond/Capital Leases Proceeds, etc.	0	0	0
Transfers	310,200	310,200	329,126
Total Revenues/Other Financing Sources	16,642,270	17,596,601	16,349,922
Expenditures and Transfers:			
Expenditures	16,944,136	18,496,593	15,309,707
Transfers	98,134	219,870	356,203
Total Expenditures and Transfers	17,042,270	18,716,463	15,665,910
Change in Fund Balance	<400,000>	<1,119,862>	684,012

During the fiscal year 2011, City Council amended the budget. These budget amendments or supplemental appropriation ordinances were primarily for the following purposes:

- Appropriation for Unspent Funds to Schools
- Appropriation for Unspent School Funds to School Capital Reserve Debt Fund
- Appropriation for additional funding for contributions to Civic/Community Organizations
- Appropriation for additional funding for Engineering-Grant Local Match
- Appropriation for Street Lights 400 Block West Main Street
- Appropriation for Ambulance/Rescue Services Machinery & Equipment & Repair/Maintenance Supplies
- Appropriation for Legal Services-Consolidation Expenses
- Appropriation for City's share of Comprehensive Service Act Foster Care
- Appropriation for Parks and Recreation for Capital Improvements

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

• CAPITAL ASSETS AND LONG TERM DEBT

The City of Covington had an investment in capital assets (net of accumulated depreciation) as of June 30, 2010 for the Governmental Activities in the amount of \$31,518,680 and as of June 30, 2011 in the amount of \$30,516,892, which represents a decrease in the amount of \$1,001,788. The City of Covington had an investment in the capital assets (net of accumulated depreciation as of June 30, 2010 for Business-Type Activities (Water and Wastewater (Sewer) in the amount of \$7,339,882 and as of June 30, 2011 in the amount of \$9,261,353, which represents a increase in the amount of \$1,921,471. The City of Covington had an investment in capital assets (net of accumulated depreciation) as of June 30, 2010 for the Component Unit (School Board) in the amount of \$960,253 and as of June 30, 2011 in the amount of \$980,215, which represents an increase in the amount of \$19,962, for which the City of Covington does not have a financial debt obligation. All debt associated with these assets have been paid.

The governmental activities long-term debt (See Note 7) has a balance of \$35,621,363 as of June 30, 2011. This amount is \$49,457 more than the balance on July 1, 2010. This \$49,457 increase was due to the following factors: (1) Issuance of Landfill Closure/Post Closure Liability in the amount of \$601,387. (2) Issuance of Compensated Absences in the amount of \$303,095. (3) Issuance of Net OPEB Obligation in the amount of \$68,776. (4) Retirement of General Obligation Bonds in the amount of \$<305,731>. (5) Retirement of Deferred Amount on Refunding in the amount of \$50,022. (6) Retirement of Literary Loans in the amount of \$<72,500>. (7) Premium on Bond in the amount of \$<156,544>. (8) Retirement of Lease Revenue Bond in the amount of \$<50,000>. (9) Retirement of Discount on Bond in the amount of \$5,844. (10) Retirement of Capital Leases in the amount of \$<123,309>. (11) Retirement of Landfill Closure/Post Closure Liability in the amount of \$.00. (12) Retirement of Compensated Absences in the amount of \$<271,583>.

The business-type activities-Water and Wastewater (Sewer) long-term debt has a balance of \$2,198,744 as of June 30, 2011 (See Note 7). This amount is \$786,797 more than the balance on July 1, 2010. This \$786,797 increase was due to the following factors: (1) Issuance of Revenue Bonds in the amount of \$1,077,115. (2) Issuance of net OPEB Obligation in the amount of \$14,924. (3) Issuance of Compensated Absences in the amount of \$2,044. (4) Retirement of Revenue Bonds-Water and Wastewater (Sewer) in the amount of \$<316,114>. (5) Retirement of deferred amount on refunding in the amount of \$8,828.

The component unit activities (School Board) long-term debt has a balance of \$581,427 as of June 30, 2011 (See Note 9). This amount is \$40,914 more than the balance on July 1, 2010. This \$40,914 increase was due to the following factor: (1) Issuance of Compensated Absences in the amount of \$15,214. (2) Issuance of Net OPEB Obligations in the amount of \$25,700.

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**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

The City maintains the following ratings on its Bonding Programs:

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

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

Capital Assets (Net of Accumulated Depreciation)						
	Governmental		Business-Type		Component Unit (School Board)	
	2010	2011	2010	2011	2010	2011
Non-Depreciable Assets:						
Land	\$1,654,067	\$1,654,067	0	0	\$89,663	\$89,663
Construction in Progress	37,465	112,100	267,962	2,084,029		0
Other Capital Assets:						
Building and Systems	32,196,391	32,196,391	0	0	1,012,803	968,994
Infrastructure	481,901	511,401				
Water and Wastewater (Sewer Plant) Systems	0	0	15,608,587	16,032,575	0	0
Machinery and Equipment	6,562,364	6,491,481	0	0	835,563	952,741
Accumulated Depreciation	<9,413,508>	<10,448,548>	<8,536,667>	<8,855,251>	<977,776>	<1,031,183>
Totals	\$31,518,680	\$30,516,892	\$7,339,882	\$9,261,353	\$960,253	\$980,215

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Governmental Activities Debt								
	Balance July 1		Issuances		Retirements		Balance June 30	
	2009	2010	2010	2011	2010	2011	2010	2011
General Obligation Bonds	\$3,887,647	\$3,581,739	\$0	\$0	\$<305,908>	\$<305,731>	\$3,581,739	\$3,276,008
Deferred Amt on refunding	<83,277>	<120,481>	<126,850>	0	89,646	50,022	<120,481>	<70,459>
Literary Loans	217,500	145,000	0	0	<72,500>	<72,500>	145,000	72,500
Bond Anticipation Note	15,000,000	15,000,000	15,000,000	0	<15,000,000>	0	15,000,000	15,000,000
Premium on Bond	50,771	455,119	455,119	0	<50,771>	<156,544>	455,119	298,575
Lease Revenue Bond	11,490,000	11,440,000	0	0	<50,000>	<50,000>	11,440,000	11,390,000
Discount on Bond	<262,446>	<256,598>	0	0	5,848	5,844	<256,598>	<250,754>
Capital Leases (Note 8)	614,435	473,140	0	0	<141,295>	<123,309>	473,140	349,831
Landfill closure/postclosure Liability	5,354,422	4,314,061	0	601,387	<1,040,361>	0	4,314,061	4,915,448
Compensated Absences	403,688	362,110	0	303,095	<41,578>	<271,583>	362,110	393,622
Net opeb obligation	108,900	177,816	68,916	68,776	0	0	177,816	246,592
Total	\$36,781,640	\$35,571,906	\$15,397,185	\$973,258	\$<16,606,919>	\$<923,801>	\$35,571,906	\$35,621,363

Business-Type Activities Debt – Water and Wastewater (Sewer)										
	Balance July 1		Adj.		Issuances		Retirements		Balance June 30	
	2009	2010			2010	2011	2010	2011	2010	2011
Revenue Bonds	\$2,029,728	\$1,330,760	\$ 0	\$ 0	\$0	\$1,077,115	\$<698,968>	\$<316,114>	\$1,330,760	\$2,091,761
Deferred amt on Refunding	<44,150>	<35,319>	0	0	0	0	8,831	8,828	<35,319>	<26,491>
Net opeb obligation	0	38,584	0	0	38,584	14,924	0	0	38,584	53,508
Compensated Absences	86,124	77,922	0	0	0	2,044	<8,202>	0	77,922	79,966
Total	\$2,071,702	\$1,411,947	0	0	\$38,584	\$1,094,083	\$<698,339>	\$<307,286>	\$1,411,947	\$2,198,744

Component Unit Activities (School Board)										
	Balance July 1		Adjustments		Issuances		Retirements		Balance June 30	
	2009	2010	2010	2011	2010	2011	2010	2011	2010	2011
Compensated Absences	378,634	388,813	0	0	10,179	15,214	0		388,813	404,027
Net opeb obligation	81,000	151,700			70,700	25,700	0	0	151,700	177,400
Total	\$459,634	\$540,513	\$0	\$0	\$80,879	\$40,914	\$0	\$0	\$540,513	\$581,427

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

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

All of the following factors were considered in preparing the City of Covington's budget for FY 11-12:

- The unemployment rate for the City of Covington in June 2011 was 7.1%.
- The development of the FY 2012 budget was very challenging. The budget is more constrained than usual because of significant decreases in financial support from the State. In an effort to balance the budget with a minimal increase of rates to the taxpayers of the City of Covington, the following changes were instituted in the FY 2011-2012 budget:
 - All funding for City Departments in the FY 2011-2012 budget were funded with a minimal or no increase.
 - Most requests by City Departments for capital improvements, which were included in the five-year capital improvement plan, were delayed until next budget year.
 - Health insurance premiums were not increased by our insurance provider.
 - One position was eliminated.
 - Travel was cut for staff to attend only required meetings for certification and education.
 - Most agencies contributions were reduced, level funded, or eliminated.
 - The School Board local contributions from the City was funded with less funds from the original FY 2010-2011 Budget, due to the fact that the Schools would receive additional State & Federal revenues. The City Council made a commitment to reappropriate in FY2011-2012 any unspent funds returned to the City on 6/30/11 by the School Board.
 - Reduction of State Aid to Local Governments by the Commonwealth has resulted in additional budget cuts.
- The following rate was increased in the FY 2010-2011 Budget in order to balance the budget:
 - Real Estate Taxes increased from \$.66 per \$100 of assessed value to \$.69 per \$100 of assessed value to offset the 3.37% reduction in assessed value of real estate based upon the recent property assessment.

**CITY OF COVINGTON, VIRGINIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

City of Covington, Virginia
Statement of Net Assets
June 30, 2011

	Primary Government			Component
	Governmental	Business-type		Unit
	Activities	Activities	Total	School Board
ASSETS				
Cash and cash equivalents	\$ 4,499,628	\$ 2,427,268	\$ 6,926,896	\$ 897,740
Cash in custody of others	-	-	-	132,400
Investments	51,591	-	51,591	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,869,557	-	2,869,557	-
Other local taxes receivable	116,945	-	116,945	-
Accounts receivable	110,824	489,097	599,921	32,760
Due from component unit	294,788	-	294,788	-
Due from other governmental units	856,670	111,820	968,490	211,329
Inventories	-	-	-	10,107
Prepaid expenses	-	-	-	123,084
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	1,012,385	52,663	1,065,048	-
Other assets:				
Unamortized bond issue costs	494,152	56,130	550,282	-
Capital assets (net of accumulated depreciation):				
Land	1,654,067	-	1,654,067	89,663
Buildings	26,298,058	-	26,298,058	581,988
Machinery and equipment	2,217,454	-	2,217,454	308,564
Infrastructure	235,213	7,177,324	7,412,537	-
Construction in progress	112,100	2,084,029	2,196,129	-
Total assets	\$ 40,823,432	\$ 12,398,331	\$ 53,221,763	\$ 2,387,635
LIABILITIES				
Accounts payable	\$ 159,330	\$ 743,928	\$ 903,258	\$ -
Accrued liabilities	107,131	23,040	130,171	777,814
Retainage payable	-	64,875	64,875	-
Customers' deposits	-	52,663	52,663	-
Accrued interest payable	390,665	8,167	398,832	-
Due to primary government	-	-	-	294,788
Unearned revenue	2,553,418	-	2,553,418	-
Deposits held in escrow	10,353	-	10,353	-
Long-term liabilities:				
Due within one year	679,910	370,044	1,049,954	-
Due in more than one year	34,941,453	1,828,700	36,770,153	581,427
Total liabilities	\$ 38,842,260	\$ 3,091,417	\$ 41,933,677	\$ 1,654,029
NET ASSETS				
Invested in capital assets, net of related debt	\$ 1,463,576	\$ 7,196,083	\$ 8,659,659	\$ 980,215
Restricted for:				
Information technology grants	586,326	-	586,326	-
Transportation enhancement grants	34,076	-	34,076	-
Unrestricted (deficit)	(102,806)	2,110,831	2,008,025	(246,609)
Total net assets	\$ 1,981,172	\$ 9,306,914	\$ 11,288,086	\$ 733,606

The accompanying 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, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit	
					Governmental Activities	Business-type Activities	Total	School Board
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 1,534,458	\$ 547	\$ 161,970	\$ -	\$ (1,371,941)		\$ (1,371,941)	
Judicial administration	134,998	-	-	-	(134,998)		(134,998)	
Public safety	2,955,125	140,493	1,072,729	-	(1,741,903)		(1,741,903)	
Public works	3,425,828	814,182	918,487	-	(1,693,159)		(1,693,159)	
Health and welfare	1,765,361	-	1,151,637	-	(613,724)		(613,724)	
Education	4,683,660	-	-	-	(4,683,660)		(4,683,660)	
Parks, recreation, and cultural	1,307,295	89,663	-	-	(1,217,632)		(1,217,632)	
Community development	79,316	1,150	-	33,330	(44,836)		(44,836)	
Interest on long-term debt	1,198,756	-	-	-	(1,198,756)		(1,198,756)	
Total governmental activities	\$ 17,084,797	\$ 1,046,035	\$ 3,304,823	\$ 33,330	\$ (12,700,609)		\$ (12,700,609)	
Business-type activities:								
Water	\$ 1,213,104	\$ 1,605,924	\$ -	\$ -		\$ 392,820	\$ 392,820	
Sewer	994,309	1,518,420	-	651,484		1,175,595	1,175,595	
Total business-type activities	\$ 2,207,413	\$ 3,124,344	\$ -	\$ 651,484		\$ 1,568,415	\$ 1,568,415	
Total primary government	\$ 19,292,210	\$ 4,170,379	\$ 3,304,823	\$ 684,814	\$ (12,700,609)	\$ 1,568,415	\$ (11,132,194)	
COMPONENT UNIT:								
School Board	\$ 10,180,581	\$ 117,696	\$ 5,797,554	\$ -	\$ -	\$ -	\$ -	\$ (4,265,331)
General revenues:								
General property taxes					\$ 7,184,718	\$ -	\$ 7,184,718	\$ -
Other local taxes:								
Local sales and use taxes					1,206,606	-	1,206,606	-
Consumers' utility taxes					428,202	-	428,202	-
Consumption taxes					25,047	-	25,047	-
Business license taxes					504,727	-	504,727	-
Motor vehicle licenses					94,524	-	94,524	-
Bank stock taxes					157,209	-	157,209	-
Taxes on wills					24,619	-	24,619	-
Hotel and motel room taxes					8,232	-	8,232	-
Restaurant food taxes					878,562	-	878,562	-
Tobacco taxes					117,397	-	117,397	-
Unrestricted revenues from use of money and property					66,865	-	66,865	1,388
Miscellaneous					45,133	21,681	66,814	246,879
Payments from the City of Covington					-	-	-	4,030,586
Grants and contributions not restricted to specific programs					917,297	-	917,297	-
Gain on sale of capital assets					7,011	-	7,011	-
Transfers					329,126	(329,126)	-	-
Total general revenues and transfers					\$ 11,995,275	\$ (307,445)	\$ 11,687,830	\$ 4,278,853
Change in net assets					\$ (705,334)	\$ 1,260,970	\$ 555,636	\$ 13,522
Net assets - beginning					2,686,506	8,045,944	10,732,450	720,084
Net assets - ending					\$ 1,981,172	\$ 9,306,914	\$ 11,288,086	\$ 733,606

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

City of Covington, Virginia
Balance Sheet
Governmental Funds
June 30, 2011

	<u>General</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 2,393,718	\$ 2,105,910	\$ -	\$ 4,499,628
Investments	51,591	-	-	51,591
Receivables (net of allowance for uncollectibles)				
Taxes receivable	2,869,557	-	-	2,869,557
Other local taxes receivables	116,945	-	-	116,945
Accounts receivable	110,824	-	-	110,824
Due from component unit	294,788	-	-	294,788
Due from other governmental units	856,670	-	-	856,670
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	-	-	1,012,385	1,012,385
Total assets	<u>\$ 6,694,093</u>	<u>\$ 2,105,910</u>	<u>\$ 1,012,385</u>	<u>\$ 9,812,388</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 159,330	\$ -	\$ -	\$ 159,330
Accrued liabilities	107,131	-	-	107,131
Deferred revenue	2,874,148	-	-	2,874,148
Deposits held in escrow	10,353	-	-	10,353
Total liabilities	<u>\$ 3,150,962</u>	<u>-</u>	<u>-</u>	<u>3,150,962</u>
Fund balances:				
Restricted:				
School construction	\$ -	\$ -	\$ 1,012,385	\$ 1,012,385
Transportation enhancement grants	34,076	-	-	34,076
Information technology grants	586,326	-	-	586,326
Committed:				
Debt service funds	-	2,105,910	-	2,105,910
Unassigned:	2,922,729	-	-	2,922,729
Total fund balances	<u>\$ 3,543,131</u>	<u>2,105,910</u>	<u>1,012,385</u>	<u>6,661,426</u>
Total liabilities and fund balances	<u>\$ 6,694,093</u>	<u>\$ 2,105,910</u>	<u>\$ 1,012,385</u>	<u>\$ 9,812,388</u>

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

City of Covington, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
June 30, 2011

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 6,661,426
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	30,516,892
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	320,730
Certain items reported as expenditures in the fund statements are deferred and shown as assets on the statement of net assets.	494,152
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(36,012,028)
Net assets of governmental activities	<u>\$ 1,981,172</u>

The accompanying 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, 2011

	General	School Debt Service Reserve	School Construction	Total
REVENUES				
General property taxes	\$ 7,149,152	\$ -	\$ -	\$ 7,149,152
Other local taxes	3,445,125	-	-	3,445,125
Permits, privilege fees, and regulatory licenses	23,668	-	-	23,668
Fines and forfeitures	17,975	-	-	17,975
Revenue from the use of money and property	47,660	18,562	643	66,865
Charges for services	1,004,392	-	-	1,004,392
Miscellaneous	45,133	-	-	45,133
Recovered costs	32,241	-	-	32,241
Intergovernmental revenues:				
Covington City School Board	-	98,134	-	98,134
Commonwealth	3,884,337	-	-	3,884,337
Federal	371,113	-	-	371,113
Total revenues	<u>\$ 16,020,796</u>	<u>\$ 116,696</u>	<u>\$ 643</u>	<u>\$ 16,138,135</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,428,913	\$ -	\$ -	\$ 1,428,913
Judicial administration	134,998	-	-	134,998
Public safety	2,715,021	-	-	2,715,021
Public works	2,527,319	-	-	2,527,319
Health and welfare	1,790,260	-	-	1,790,260
Education	4,130,220	-	-	4,130,220
Parks, recreation, and cultural	1,280,563	-	-	1,280,563
Community development	79,316	-	-	79,316
Nondepartmental	11,192	-	-	11,192
Capital projects	-	-	175,538	175,538
Debt service:				
Principal retirement	501,540	-	50,000	551,540
Interest and other fiscal charges	710,365	-	546,947	1,257,312
Total expenditures	<u>\$ 15,309,707</u>	<u>\$ -</u>	<u>\$ 772,485</u>	<u>\$ 16,082,192</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 711,089</u>	<u>\$ 116,696</u>	<u>\$ (771,842)</u>	<u>\$ 55,943</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 329,126	\$ 323,601	\$ -	\$ 652,727
Transfers out	(356,203)	-	-	(356,203)
Total other financing sources (uses)	<u>\$ (27,077)</u>	<u>\$ 323,601</u>	<u>\$ -</u>	<u>\$ 296,524</u>
Net change in fund balances	\$ 684,012	\$ 440,297	\$ (771,842)	\$ 352,467
Fund balances - beginning	2,859,119	1,665,613	1,784,227	6,308,959
Fund balances - ending	<u>\$ 3,543,131</u>	<u>\$ 2,105,910</u>	<u>\$ 1,012,385</u>	<u>\$ 6,661,426</u>

The accompanying 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, 2011

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

Net change in fund balances - total governmental funds	\$	352,467
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.		(1,008,799)
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The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.		7,011
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		35,566
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(105,549)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.		13,970
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Change in net assets of governmental activities	\$	<u>(705,334)</u>
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The accompanying notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Enterprise Funds			Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund	Total	Fund
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,473,747	\$ 953,521	\$ 2,427,268	\$ -
Accounts receivable, net of allowance for uncollectibles	272,484	216,613	489,097	-
Due from other governmental units	-	111,820	111,820	-
Total current assets	<u>\$ 1,746,231</u>	<u>\$ 1,281,954</u>	<u>\$ 3,028,185</u>	<u>\$ -</u>
Noncurrent assets:				
Restricted current assets:				
Cash and cash equivalents	\$ 27,601	\$ 25,062	\$ 52,663	\$ -
Other assets:				
Unamortized bond issue costs	\$ 13,303	\$ 42,827	\$ 56,130	\$ -
Capital assets:				
Utility plant in service	\$ 8,100,506	\$ 7,932,069	\$ 16,032,575	\$ -
Less: accumulated depreciation	(4,751,809)	(4,103,442)	(8,855,251)	-
Construction in progress	-	2,084,029	2,084,029	-
Total capital assets	<u>\$ 3,348,697</u>	<u>\$ 5,912,656</u>	<u>\$ 9,261,353</u>	<u>\$ -</u>
Total noncurrent assets	<u>\$ 3,389,601</u>	<u>\$ 5,980,545</u>	<u>\$ 9,370,146</u>	<u>\$ -</u>
Total assets	<u>\$ 5,135,832</u>	<u>\$ 7,262,499</u>	<u>\$ 12,398,331</u>	<u>\$ -</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 127	\$ 743,801	\$ 743,928	\$ -
Wages payable	12,405	10,635	23,040	-
Customers' deposits	27,601	25,062	52,663	-
Accrued interest payable	3,270	4,897	8,167	-
Retainage payable	-	64,875	64,875	-
Bonds payable - current portion	126,605	243,439	370,044	-
Total current liabilities	<u>\$ 170,008</u>	<u>\$ 1,092,709</u>	<u>\$ 1,262,717</u>	<u>\$ -</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 269,063	\$ 1,426,163	\$ 1,695,226	\$ -
Net OPEB obligation	29,590	23,918	53,508	-
Compensated absences	53,176	26,790	79,966	-
Total noncurrent liabilities	<u>\$ 351,829</u>	<u>\$ 1,476,871</u>	<u>\$ 1,828,700</u>	<u>\$ -</u>
Total liabilities	<u>\$ 521,837</u>	<u>\$ 2,569,580</u>	<u>\$ 3,091,417</u>	<u>\$ -</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 2,953,029	\$ 4,243,054	\$ 7,196,083	-
Unrestricted	1,660,966	449,865	2,110,831	-
Total net assets	<u>\$ 4,613,995</u>	<u>\$ 4,692,919</u>	<u>\$ 9,306,914</u>	<u>\$ -</u>

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

City of Covington, Virginia
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Enterprise Funds			Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund	Total	Fund
OPERATING REVENUES				
Charges for services:				
Water revenues	\$ 1,588,721	\$ -	\$ 1,588,721	\$ -
Sewer revenues	-	1,518,420	1,518,420	-
Vehicle maintenance	-	-	-	172,132
Penalties	17,203	-	17,203	-
Miscellaneous	6,534	15,147	21,681	-
Total operating revenues	\$ 1,612,458	\$ 1,533,567	\$ 3,146,025	\$ 172,132
OPERATING EXPENSES				
Salaries and wages	\$ 404,612	\$ 351,319	\$ 755,931	\$ 119,942
Fringes	206,349	185,863	392,212	66,686
Contracted services	70,395	88,518	158,913	559
Other:				
Electric and heating	115,027	67,526	182,553	-
Postal and telecommunications	13,889	9,034	22,923	-
Insurance	28,007	21,787	49,794	-
Supplies	142,509	50,760	193,269	-
Travel	1,751	4,901	6,652	-
Miscellaneous	17,169	9,223	26,392	17,547
Purchase of equipment	27,097	1,569	28,666	-
Lease/rent of equipment	828	241	1,069	-
OPEB expense	8,253	6,671	14,924	-
Depreciation	155,151	163,433	318,584	-
Total operating expenses	\$ 1,191,037	\$ 960,845	\$ 2,151,882	\$ 204,734
Operating income (loss)	\$ 421,421	\$ 572,722	\$ 994,143	\$ (32,602)
NONOPERATING REVENUES (EXPENSES)				
Connection fees	\$ -	\$ 700	\$ 700	\$ -
Debt issuance/refunding costs	(7,966)	(12,348)	(20,314)	-
Interest expense	(14,101)	(21,116)	(35,217)	-
Total nonoperating revenues (expenses)	\$ (22,067)	\$ (32,764)	\$ (54,831)	\$ -
Income before contributions and transfers	\$ 399,354	\$ 539,958	\$ 939,312	\$ (32,602)
Capital contributions and construction grants	\$ -	\$ 650,784	\$ 650,784	\$ -
Transfers in	-	-	-	32,602
Transfers out	(139,253)	(189,873)	(329,126)	-
Change in net assets	\$ 260,101	\$ 1,000,869	\$ 1,260,970	\$ -
Total net assets - beginning	\$ 4,353,894	\$ 3,692,050	\$ 8,045,944	\$ -
Total net assets - ending	\$ 4,613,995	\$ 4,692,919	\$ 9,306,914	\$ -

The accompanying 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, 2011

	Enterprise Funds			Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund	Total	Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,615,585	\$ 1,462,123	\$ 3,077,708	\$ 172,132
Payments to suppliers	(417,847)	(253,030)	(670,877)	(18,106)
Payments to employees	(610,830)	(534,717)	(1,145,547)	(186,628)
Net cash provided (used) by operating activities	\$ 586,908	\$ 674,376	\$ 1,261,284	\$ (32,602)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	\$ (139,253)	\$ (189,873)	\$ (329,126)	\$ -
Transfers from other funds	-	-	-	32,602
Net cash provided (used) by noncapital financing activities	(139,253)	(189,873)	(329,126)	32,602
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to utility plant	\$ (11,086)	\$ (1,531,294)	\$ (1,542,380)	\$ -
Principal payments on bonds	(126,572)	(189,542)	(316,114)	-
Capital grants	-	577,528	577,528	-
Proceeds from indebtedness	-	1,077,115	1,077,115	-
Bond issuance costs	-	(21,675)	(21,675)	-
Interest payments	(15,121)	(22,642)	(37,763)	-
Connection fees	-	700	700	-
Net cash provided (used) by capital and related financing activities	\$ (152,779)	\$ (109,810)	\$ (262,589)	\$ -
Net increase (decrease) in cash and cash equivalents	\$ 294,876	\$ 374,693	\$ 669,569	\$ -
Cash and cash equivalents - beginning	1,206,472	603,890	1,810,362	-
Cash and cash equivalents - ending	\$ 1,501,348	\$ 978,583	\$ 2,479,931	\$ -
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 421,421	\$ 572,722	\$ 994,143	\$ (32,602)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	\$ 155,151	\$ 163,433	\$ 318,584	\$ -
OPEB expense	8,253	6,671	14,924	-
(Increase) decrease in accounts receivable	2,333	(70,920)	(68,587)	-
Increase (decrease) in customer deposits	794	(524)	270	-
Increase (decrease) in accounts payable	(1,175)	529	(646)	-
Increase (decrease) in wages payable	364	188	552	-
Increase (decrease) compensated absences	(233)	2,277	2,044	-
Total adjustments	\$ 165,487	\$ 101,654	\$ 267,141	\$ -
Net cash provided (used) by operating activities	\$ 586,908	\$ 674,376	\$ 1,261,284	\$ (32,602)

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF COVINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1—Summary of Significant Accounting Policies:

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

A. Reporting Entity

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

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

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

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

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

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

The City participates in the Charles Pinckney Jones Memorial Library. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City's contribution during fiscal year 2011 was \$115,400.

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

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

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

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

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

The government reports the following major governmental funds:

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

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

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

The government reports the following internal service funds:

The Motor Vehicle internal service fund accounts for the financing of goods and services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

The government reports the following major proprietary funds:

The City operates a sewage collection and treatment plant and a water filtration and distribution system. The activities of the systems are accounted for in the water and sewer funds

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

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

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

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

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

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

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

2. Receivables and payables

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

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

3. Property Taxes

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

4. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$67,345 at June 30, 2011 and is comprised solely of property taxes.

5. Use of Estimates

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

6. Capital assets

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 1—Summary of Significant Accounting Policies: (Continued)**D. Assets, liabilities, and net assets or equity (Continued)****6. Capital assets (Continued)**

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

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

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

Assets	Years
Buildings	40
Building improvements	40
Structures, lines, and accessories	20-40
Machinery and equipment	4-30

7. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Government Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The City accrues salary-related payments associated with the payment of compensated absences.

8. Long-term obligations

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

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

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

8. Long-term obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund equity

Beginning with fiscal year 2011, the City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

Committed Fund Balance Policy:

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

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

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

9. Fund equity (Continued)

Assigned Fund Balance Policy:

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

Minimum Unassigned Fund Balance Policy:

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

Resource Flow Policy:

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

10. Net Assets

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of these \$(36,012,028) and \$(581,427) differences for the primary government and discretely presented component unit, respectively, are as follows:

	Primary Government	Component Unit School Board
Debt payable, net of deferred amount on refunding	\$ (30,017,880)	\$ -
Accrued interest payable	(390,665)	-
Landfill accrued closure and post-closure monitoring costs	(4,915,448)	-
Premium on bond anticipation note issuance	(298,575)	-
Discount on lease revenue issuance	250,754	-
OPEB obligation	(246,592)	(177,400)
Compensated absences	(393,622)	(404,027)
	<hr/>	<hr/>
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	\$ (36,012,028)	\$ (581,427)

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 2—Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of these \$(1,008,799) and \$19,962 differences for the primary government and discretely presented component unit, respectively, are as follows:

	Primary Government	Component Unit School Board
Capital outlays	\$ 501,192	\$ 117,178
Net value on disposal of assets	(136,236)	(20,200)
Depreciation expenses	(1,373,755)	(77,016)
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ (1,008,799)	\$ 19,962

Another element of that reconciliation states "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$(49,847) difference in the primary government are as follows:

	Primary Government
Debt Issued or incurred:	
Accrued landfill closure/postclosure	\$ (601,387)
Principal repayments:	
General obligation debt	305,731
Lease revenue bonds	50,000
Capital leases	72,500
Literary loans	123,309
Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ (49,847)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 2—Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

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

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of these \$(41,732) and \$(40,914) difference for the primary government and the discretely presented component unit, respectively, are as follows:

	Primary Government	Component Unit School Board
(Increase) decrease in compensated absences	\$ (31,512)	\$ (15,214)
(Increase) decrease in net OPEB obligation	(68,776)	(25,700)
Amortization of bond issuance costs	(87,229)	-
Amortization of bond discount	(5,844)	-
Amortization of bond premiums	156,544	-
Amortization of deferred amount on refundings	(50,022)	-
(Increase) decrease in accrued interest	45,107	-
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ (41,732)	\$ (40,914)

Note 3-Stewardship, Compliance, and Accountability:

A. Budgetary information

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

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

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

A. Budgetary information (Continued)

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

B. Excess of expenditures over appropriations

The Commonwealth Attorney, Sheriff (Law Enforcement), and Sheriff (Jail) departments over spent their appropriations.

C. Deficit fund equity

At June 30, 2011, there were no funds with deficit fund equity.

Note 4—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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 4—Deposits and Investments: (Continued)Investments

Statutes authorize the City and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2011 and June 30, 2010, the City had 1,176 shares of MetLife Trust stock valued at a \$43.87 and \$37.76 per share for a total of \$51,591 and \$44,406, respectively.

Note 5—Due from Other Governmental Units:

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

	Primary Government	Component Unit School Board
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 203,000	\$ -
Communication tax	49,263	-
State sales tax	-	104,133
Non-categorical aid	256,657	-
Categorical aid - shared expenses	12,058	-
Categorical aid - Comprehensive Services Act	305,792	-
Categorical aid - VPA	1,071	-
Categorical aid - other	13,462	-
<u>Federal Government:</u>		
Categorical aid - VPA	5,512	-
Categorical aid - other	121,675	107,196
Totals	<u>\$ 968,490</u>	<u>\$ 211,329</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 6—Interfund Transfers:

Interfund transfers for the year ended June 30, 2011, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 329,126	\$ 356,203
Water Fund	-	139,253
Sewer Fund	-	189,873
Motor Vehicle Internal Serv. Fund	32,602	-
School Debt Reserve Fund	323,601	-
Total	<u>\$ 685,329</u>	<u>\$ 685,329</u>

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

Note 7—Long-Term Debt:Primary Government - Governmental Activity Indebtedness:

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2011:

	<u>Balance July 1, 2010</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
General obligation bonds	\$ 3,581,739	\$ -	\$ (305,731)	\$ 3,276,008
Deferred amounts:				
Bond premiums	455,119	-	(156,544)	298,575
On refunding	(120,481)	-	50,022	(70,459)
Discounts	(256,598)	-	5,844	(250,754)
Bond anticipation notes	15,000,000	-	-	15,000,000
Literary loans	145,000	-	(72,500)	72,500
Lease revenue bond	11,440,000	-	(50,000)	11,390,000
Capital leases (note 8)	473,140	-	(123,309)	349,831
Landfill closure/ postclosure liability	4,314,061	601,387	-	4,915,448
Compensated absences	362,110	303,095	(271,583)	393,622
Net OPEB obligation	177,816	68,776	-	246,592
	<u>\$ 35,571,906</u>	<u>\$ 973,258</u>	<u>\$ (923,801)</u>	<u>\$ 35,621,363</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 7—Long-Term Debt: (Continued)

Primary Government - Governmental Activity Indebtedness: (Continued)

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

Year Ending June 30,	General Obligation Bonds		Literary Fund Loans		Bond Anticipation Notes		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 319,522	\$ 122,455	\$ 72,500	\$ 2,175	\$ -	\$ 506,250	\$ 50,000	\$ 519,037
2013	329,486	112,175	-	-	15,000,000	421,875	50,000	517,038
2014	133,000	102,978	-	-	-	-	100,000	514,037
2015	137,000	97,765	-	-	-	-	100,000	510,037
2016	146,000	92,394	-	-	-	-	100,000	506,038
2017-2021	803,000	373,223	-	-	-	-	500,000	2,470,188
2022-2026	963,000	203,605	-	-	-	-	500,000	2,365,625
2027-2031	445,000	26,304	-	-	-	-	1,790,000	2,196,813
2032-2036	-	-	-	-	-	-	5,125,000	1,303,672
2037-2041	-	-	-	-	-	-	3,075,000	213,328
Totals	\$ 3,276,008	\$ 1,130,899	\$ 72,500	\$ 2,175	\$ 15,000,000	\$ 928,125	\$ 11,390,000	\$ 11,115,813

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 7—Long-Term Debt: (Continued)Primary Government - Governmental Activity Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
GO Refunding Bond	3.92%	6/17/2006	2028	\$ 3,232,000	\$ 2,878,000	\$ 123,000
GO Bond	2.51%	1/25/2008	2013	959,000	398,008	196,522
Total GO Bonds					3,276,008	319,522
Less:						
Deferred Amount on Refunding				(106,932)	(70,459)	(6,251)
Total GO Bonds, net					\$ 3,205,549	\$ 313,271
Other Long-term Debt:						
Literary Fund Loan	3.00%	1/1/1992	2012	\$ 1,450,000	\$ 72,500	\$ 72,500
Lease Revenue Bond	4.00%-4.50%	12/1/2007	2039	11,490,000	11,390,000	50,000
Bond Anticipation Note	3.75%	12/10/2009	2013	15,000,000	15,000,000	-
Discount on Bond				(274,460)	(250,754)	(5,840)
Premium on Bond				455,119	298,575	159,978
Total Other Long-term Debt					\$ 26,510,321	\$ 276,638
Other Obligations:						
Capital lease	4.04%	3/16/2005	2015	\$ 731,128	\$ 319,668	\$ 75,234
Capital lease	4.18%	10/19/2007	2013	70,941	30,163	14,767
Total Capital Leases					\$ 349,831	\$ 90,001
Compensated Absences					393,622	-
Net OPEB obligation					246,592	-
Landfill Closure/Post-closure Monitoring					4,915,448	-
Total Other Obligations					\$ 5,905,493	\$ 90,001
Total Long-term Debt					\$ 35,621,363	\$ 679,910

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 7—Long-Term Debt: (Continued)Primary Government - Enterprise Activity Indebtedness:

The following is a summary of long-term debt transactions of the Enterprise Fund for the year ended June 30, 2011:

	Balance July 1, 2010	Issuances	Retirements	Balance June 30, 2011
Revenue bonds	\$ 1,330,760	\$ 1,077,115	\$ (316,114)	\$ 2,091,761
Deferred amount on refunding	(35,319)	-	8,828	(26,491)
Net OPEB obligation	38,584	14,924	-	53,508
Compensated absences	77,922	2,044	-	79,966
Total	\$ 1,411,947	\$ 1,094,083	\$ (307,286)	\$ 2,198,744

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

Year Ending June 30,	Revenue Bonds					
	Water (40.04%)		Sewer (59.96%)		Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 130,137	\$ 10,987	\$ 194,881	\$ 16,452	\$ 53,856	\$ -
2013	135,504	6,710	202,917	10,047	53,856	-
2014	140,623	2,262	210,584	3,390	53,856	-
2015	-	-	-	-	53,856	-
2016	-	-	-	-	53,856	-
2017-2021	-	-	-	-	269,280	-
2022-2026	-	-	-	-	269,280	-
2027-2031	-	-	-	-	269,275	-
Totals	\$ 406,264	\$ 19,959	\$ 608,382	\$ 29,889	\$ 1,077,115	\$ -

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 7—Long-Term Debt: (Continued)Primary Government - Enterprise Activity Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bond:						
Revenue Bond	3.22%	8/18/2004	2014	\$ 4,665,377	\$ 1,014,646	\$ 325,018
Revenue Bond	0.00%	12/1/2010	2031	5,000,000	1,077,115	53,856
Deferred Amount on Refunding					(26,491)	(8,830)
Total Revenue Bonds					<u>\$ 2,065,270</u>	<u>\$ 370,044</u>
Other Obligations:						
Compensated Absences					\$ 79,966	\$ -
Net OPEB Obligation					53,508	-
Total Other Obligations					<u>\$ 133,474</u>	<u>\$ -</u>
Total Long-term debt					<u>\$ 2,198,744</u>	<u>\$ 370,044</u>

Note 8—Capital Leases:Primary Government:

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

The assets acquired through capital leases are as follows:

	Fire Truck	Refuse Vehicle
Machinery and equipment	\$ 731,128	\$ 70,941
Less: Accumulated depreciation	<u>(459,709)</u>	<u>(52,477)</u>
Net Asset	<u>\$ 271,419</u>	<u>\$ 18,464</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 8—Capital Leases: (Continued)Primary Government: (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

<u>Fiscal Year Ended</u>	<u>Fire Truck</u>	<u>Refuse Vehicle</u>
2012	\$ 88,148	\$ 16,052
2013	88,148	16,052
2014	88,149	-
2015	88,149	-
Total minimum lease payments	\$ 352,594	\$ 32,104
Less: amount representing interest	(32,926)	(1,941)
Present value of minimum lease payments	<u>\$ 319,668</u>	<u>\$ 30,163</u>

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

The following is a summary of long-term debt transactions of the School Board for the year ended June 30, 2011:

	<u>Balance July 1, 2010</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
Compensated absences	\$ 388,813	\$ 15,214	\$ -	\$ 404,027
Net OPEB obligation	151,700	25,700	-	177,400
	<u>\$ 540,513</u>	<u>\$ 40,914</u>	<u>\$ -</u>	<u>\$ 581,427</u>

Details of long-term indebtedness:

	<u>Balance Governmental Activities</u>	<u>Amount Due Within One Year</u>
Other Obligations:		
Compensated absences	\$ 404,027	\$ -
Net OPEB obligation	<u>151,700</u>	<u>-</u>
Total Long-term debt	<u>\$ 555,727</u>	<u>\$ -</u>

Note 10—Employee Retirement System and Pension Plans:

A. Plan Description

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

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave, and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 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. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

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

A. Plan Description (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the City of Covington, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City of Covington, Virginia's contribution rate for the fiscal year ended 2011 was 12.68% of annual covered payroll.

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

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the Covington City School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Covington City School Board's contribution rate for the fiscal year ended 2011 was 11.39% of annual covered payroll.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 10—Employee Retirement System and Pension Plans: (Continued)

C. Annual Pension Cost

For fiscal year 2011, the City of Covington, Virginia's annual pension cost of \$612,145 and \$81,751 was equal to the City of Covington, Virginia's required and actual contributions for the City and the School Board Non-Professionals, respectively.

Three-Year Trend Information

	Fiscal Year Ended	Annual Pension Cost (APC) ¹	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2009	\$ 654,870	100.00%	\$ -
	6/30/2010	641,672	100.00%	-
	6/30/2011	612,145	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2009	\$ 80,646	100.00%	\$ -
	6/30/2010	75,643	100.00%	-
	6/30/2011	81,751	100.00%	-

¹ Employer & employee portions

The FY 2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City of Covington, Virginia and Covington City School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City of Covington, Virginia and Covington City School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the unfunded actuarial accrued liability (UAAL) was 20 years.

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

D. Funded Status and Funding Progress

Primary Government:

As of June 30, 2010, the most recent actuarial valuation date, the plan was 70.99% funded. The actuarial accrued liability for benefits was \$21,158,463, and the actuarial value of assets was \$15,020,138, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,138,325. The covered payroll (annual payroll of active employees covered by the plan) was \$3,626,023, and ratio of the UAAL to the covered payroll was 169.29%.

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

As of June 30, 2010, the most recent actuarial valuation date, the plan was 76.97% funded. The actuarial accrued liability for benefits was \$2,703,721, and the actuarial value of assets was \$2,081,183, resulting in an unfunded actuarial accrued liability (UAAL) of \$622,538. The covered payroll (annual payroll of active employees covered by the plan) was \$509,300, and ratio of the UAAL to the covered payroll was 122.23%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

E. Discretely Presented Component Unit School Board

Professional Employees:

Plan Description:

The Covington City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The system issues a publicly available comprehensive annual financial report that includes financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution to the statewide cost sharing pool for professional employees, not including the 5.00% member contribution, was \$153,458, \$348,068, and \$476,718 for the fiscal years ended 2011, 2010, and 2009, respectively. Required employer contributions represented 3.93%, 8.81%, and 8.81%, of covered payroll for the fiscal years ended 2011, 2010, and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 11—Other Postemployment Benefits (OPEB)-Health Insurance:

A. Plan Description

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

B. Funding Policy

The Covington City Government establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will be partially funded or fully funded in the upcoming fiscal year. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City. For fiscal year 2011, the City and School Board contributed \$18,800 and \$47,300, respectively, for current premiums and prefunding amounts.

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

C. Annual OPEB Cost and Net OPEB Obligation

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

	Primary Government				Component Unit School Board
	General	Water	Sewer	Total	
Annual required contribution	\$ 84,635	\$ 10,156	\$ 8,209	\$ 103,000	\$ 73,200
Interest on net OPEB obligation	8,700	-	-	8,700	6,100
Adjustment to annual required contribution	(9,200)	-	-	(9,200)	(6,300)
Annual OPEB cost (expense)	84,135	10,156	8,209	102,500	73,000
Actual contributions	(15,359)	(1,903)	(1,538)	(18,800)	(47,300)
Increase in net OPEB obligation	68,776	8,253	6,671	83,700	25,700
Net OPEB obligation - beginning of year	177,816	21,337	17,247	216,400	151,700
Net OPEB obligation - end of year	\$ 246,592	\$ 29,590	\$ 23,918	\$ 300,100	\$ 177,400

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 11—Other Postemployment Benefits (OPEB)-Health Insurance: (Continued)

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

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

Entity	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
City	6/30/2011	102,500	18.34%	300,100
City	6/30/2010	93,403	31.90%	177,816
City	6/30/2009	130,000	16.23%	108,900
School Board	6/30/2011	73,000	113.56%	177,400
School Board	6/30/2010	153,600	53.97%	151,700
School Board	6/30/2009	147,400	45.05%	81,000

D. Funded Status and Funding Progress

City:

As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$1,440,800, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$3,519,100, and ratio of the UAAL to the covered payroll was 40.90%.

School Board:

As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$829,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,506,000, and ratio of the UAAL to the covered payroll was 15.12%.

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

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2010, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return per annum. An annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements of 0.5 percent until an ultimate rate of 5 percent is reached. The UAAL is being amortized as a level percentage over the remaining amortization period, which at June 30, 2011, was 30 years.

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

A. Plan Description

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

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

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 10.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

B. Funding Policy

Primary Government:

As a participating local political subdivision, the City is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2011 was 0.50% of annual covered payroll.

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

As a participating local political subdivision, the Covington School Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2011 was 0.80% of annual covered payroll.

C. OPEB Cost and Net OPEB Obligation:

Primary Government:

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

For 2011, the City's contribution of \$17,312 was equal to the ARC and OPEB cost. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Primary Government:				
City	6/30/2010	\$ 29,577	100.00%	\$ -
	6/30/2011	17,312	100.00%	-

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

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

For 2011, the School Board's contribution of \$3,990 was equal to the ARC and OPEB cost. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Discretely Presented Component Unit				
School Board	6/30/2010	\$ 4,496	100.00%	\$ -
	6/30/2011	3,990	100.00%	-

D. Funded Status and Funding Progress

Primary Government:

The funded status of the plan as of June 30, 2010, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 302,607
Actuarial value of plan assets	\$ 71,809
Unfunded actuarial accrued liability (UAAL)	\$ 230,798
Funded ratio (actuarial value of plan assets/AAL)	23.73%
Covered payroll (active plan members)	\$ 3,626,023
UAAL as a percentage of covered payroll	6.37%

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

D. Funded Status and Funding Progress (Continued)

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

The funded status of the plan as of June 30, 2010, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	61,835
Actuarial value of plan assets	\$	12,225
Unfunded actuarial accrued liability (UAAL)	\$	49,610
Funded ratio (actuarial value of plan assets/AAL)		19.77%
Covered payroll (active plan members)	\$	509,300
UAAL as a percentage of covered payroll		9.74%

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

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

E. Actuarial Methods and Assumptions

Primary Government:

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2010 was 26 years.

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

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

E. Actuarial Methods and Assumptions: (Continued)

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2010 was 26 years.

F. Professional Employees – Discretely Presented Component Unit School Board

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

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

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 0.80% of annual covered payroll. The School Board's contributions to VRS for the year ended June 30, 2011 was \$31,272 and equaled the required contributions.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 13—Capital Assets:

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,654,067	\$ -	\$ -	\$ 1,654,067
Construction in progress	37,465	74,635	-	112,100
Total capital assets not being depreciated	<u>\$ 1,691,532</u>	<u>\$ 74,635</u>	<u>\$ -</u>	<u>\$ 1,766,167</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 32,196,391	\$ -	\$ -	\$ 32,196,391
Infrastructure	481,901	29,500	-	511,401
Machinery and equipment	6,562,364	397,057	(467,940)	6,491,481
Total capital assets being depreciated	<u>\$ 39,240,656</u>	<u>\$ 426,557</u>	<u>\$ (467,940)</u>	<u>\$ 39,199,273</u>
Less: accumulated depreciation for:				
Buildings and improvements	\$ (4,930,516)	\$ (967,817)	\$ -	\$ (5,898,333)
Infrastructure	(257,479)	(18,709)	-	(276,188)
Machinery and equipment	(4,225,513)	(387,229)	338,715	(4,274,027)
Total accumulated depreciation	<u>\$ (9,413,508)</u>	<u>\$ (1,373,755)</u>	<u>\$ 338,715</u>	<u>\$ (10,448,548)</u>
Total capital assets being depreciated, net	<u>\$ 29,827,148</u>	<u>\$ (947,198)</u>	<u>\$ (129,225)</u>	<u>\$ 28,750,725</u>
Governmental activities capital assets, net	<u>\$ 31,518,680</u>	<u>\$ (872,563)</u>	<u>\$ (129,225)</u>	<u>\$ 30,516,892</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 13—Capital Assets: (Continued)

Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Enterprise Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 267,962	\$ 2,209,477	\$ (393,410)	\$ 2,084,029
Capital assets, being depreciated:				
Infrastructure	\$ 15,608,587	\$ 423,988	\$ -	\$ 16,032,575
Less: accumulated depreciation for:				
Infrastructure	\$ (8,536,667)	\$ (318,584)	\$ -	\$ (8,855,251)
Total capital assets being depreciated, net	\$ 7,071,920	\$ 105,404	\$ -	\$ 7,177,324
Enterprise activities capital assets, net	\$ 7,339,882	\$ 2,314,881	\$ (393,410)	\$ 9,261,353

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

Governmental activities:	
General government administration	\$ 94,954
Public safety	218,407
Public works	293,351
Education	640,587
Parks, recreation, and cultural	126,456
Total depreciation expense-governmental activities	\$ 1,373,755
Enterprise activities:	
Water and sewer funds	\$ 318,584
Total depreciation expense-Primary Government	\$ 1,692,339

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011Note 13—Capital Assets: (Continued)Discretely Presented Component Unit

Capital asset activity for the School Board for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 89,663	\$ -	\$ -	\$ 89,663
Capital assets, being depreciated:				
Buildings	\$ 1,012,803	\$ -	\$ (43,809)	\$ 968,994
Machinery and equipment	835,563	117,178	-	952,741
Total capital assets being depreciated	\$ 1,848,366	\$ 117,178	\$ (43,809)	\$ 1,921,735
Less: accumulated depreciation for:				
Buildings	\$ (393,402)	\$ (17,213)	\$ 23,609	\$ (387,006)
Machinery and equipment	(584,374)	(59,803)	-	(644,177)
Total accumulated depreciation	\$ (977,776)	\$ (77,016)	\$ 23,609	\$ (1,031,183)
Total capital assets being depreciated, net	\$ 870,590	\$ 40,162	\$ (20,200)	\$ 890,552
Governmental activities capital assets, net	\$ 960,253	\$ 40,162	\$ (20,200)	\$ 980,215

Note 14—Risk Management:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 15—Contingent Liabilities:

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

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

Note 16—Surety Bonds:

Primary Government:

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

Note 17—Landfill Closure and Post-Closure Care Cost:

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. \$4,915,448 is the total estimated closure and postclosure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2011. This represents the cumulative amount based on the use of 100% of the estimated capacity of the landfill and is based on what it would cost to perform all remaining closure and postclosure care in 2011. In fiscal year 2002, the Department of Environmental Quality closed permit #178. The City's open landfill, permit #594, is comprised of a working cell that is approximately 50% full, including cells A and B. The life expectancy for cells A and B is 9.25 years based on an average annual disposal rate. The current year liability is based on a study performed as of that date and adjusted for inflation. Actual costs for closure and postclosure monitoring may change due to inflation, deflation, changes in technology, or changes in regulations. The City uses the Financial Assurance Mechanism to meet the Department of Environmental Quality's assurance requirements for landfill closure and postclosure costs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 18 – Deferred/Unearned Revenue:

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable	\$ 2,829,960	\$ 2,509,230
Personal property taxes relief	8,864	8,864
Prepaid taxes	35,324	35,324
Total deferred/unearned revenue for governmental funds	\$ 2,874,148	\$ 2,553,418

Note 19 – Commitments and Contingencies:

	Original Contract	Amount Paid As of 6/30/2011	Remaining Contract Amount	Accounts Payable	Retainage Payable
WWTP Upgrades	\$ 3,955,219	\$ 1,208,457	\$ 2,746,762	\$ 475,836	\$ 47,018
Sewer Separation Project	1,336,131	466,551	869,580	173,325	17,857
Total Contracts	\$ 5,291,350	\$ 1,675,008	\$ 3,616,342	\$ 649,161	\$ 64,875

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
General property taxes	\$ 7,089,684	\$ 7,089,684	\$ 7,149,152	\$ 59,468
Other local taxes	3,345,264	3,345,264	3,445,125	99,861
Permits, privilege fees, and regulatory licenses	23,305	23,305	23,668	363
Fines and forfeitures	71,800	71,800	17,975	(53,825)
Revenue from the use of money and property	35,000	35,000	47,660	12,660
Charges for services	962,165	962,165	1,004,392	42,227
Miscellaneous	3,037	96,287	45,133	(51,154)
Recovered costs	35,000	35,000	32,241	(2,759)
Intergovernmental revenues:				
Commonwealth	4,568,117	4,741,163	3,884,337	(856,826)
Federal	198,698	886,733	371,113	(515,620)
Total revenues	<u>\$ 16,332,070</u>	<u>\$ 17,286,401</u>	<u>\$ 16,020,796</u>	<u>\$ (1,265,605)</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,452,867	\$ 1,511,131	\$ 1,428,913	\$ 82,218
Judicial administration	128,345	128,345	134,998	(6,653)
Public safety	3,871,471	3,902,904	2,715,021	1,187,883
Public works	2,864,543	2,971,226	2,527,319	443,907
Health and welfare	1,669,936	1,900,546	1,790,260	110,286
Education	4,280,113	4,605,113	4,130,220	474,893
Parks, recreation, and cultural	1,231,543	2,051,228	1,280,563	770,665
Community development	79,543	83,043	79,316	3,727
Nondepartmental	73,000	50,282	11,192	39,090
Debt service:				
Principal retirement	556,496	556,496	501,540	54,956
Interest and other fiscal charges	736,279	736,279	710,365	25,914
Total expenditures	<u>\$ 16,944,136</u>	<u>\$ 18,496,593</u>	<u>\$ 15,309,707</u>	<u>\$ 3,186,886</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (612,066)</u>	<u>\$ (1,210,192)</u>	<u>\$ 711,089</u>	<u>\$ 1,921,281</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 310,200	\$ 310,200	\$ 329,126	\$ 18,926
Transfers out	(98,134)	(219,870)	(356,203)	(136,333)
Total other financing sources and uses	<u>\$ 212,066</u>	<u>\$ 90,330</u>	<u>\$ (27,077)</u>	<u>\$ (117,407)</u>
Net change in fund balances	\$ (400,000)	\$ (1,119,862)	\$ 684,012	\$ 1,803,874
Fund balances - beginning	400,000	1,119,862	2,859,119	1,739,257
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,543,131</u>	<u>\$ 3,543,131</u>

City of Covington, Virginia
Required Supplementary Information

Schedule of Pension and OPEB Funding Progress
For the Year Ended June 30, 2011

Primary Government: City Retirement Plan

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2010	\$ 15,020,138	\$ 21,158,463	\$ 6,138,325	70.99%	\$ 3,626,023	169.29%
June 30, 2009	14,895,599	19,405,596	4,509,997	76.76%	3,649,801	123.57%
June 30, 2008	14,617,659	18,257,930	3,640,271	80.06%	3,645,569	99.85%

City Postemployment Healthcare Plan

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

City Postemployment VRS Health Insurance Credit

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2010	\$ 71,809	\$ 302,607	\$ 230,798	23.73%	\$ 3,626,023	6.37%
June 30, 2009	55,933	274,284	218,351	20.39%	3,649,801	5.98%
June 30, 2008	59,493	325,504	266,011	18.28%	3,645,569	7.30%

School Board Non-Professional Retirement Plan

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2010	\$ 2,081,183	\$ 2,703,721	\$ 622,538	76.97%	\$ 509,300	122.23%
June 30, 2009	2,137,323	2,521,972	384,649	84.75%	534,141	72.01%
June 30, 2008	2,186,720	2,424,560	237,840	90.19%	602,759	39.46%

School Board Postemployment Healthcare Plan

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2010*	\$ -	\$ 829,000	\$ 829,000	0.00%	\$ 5,498,079	15.08%
July 1, 2008	-	1,723,300	1,723,300	0.00%	5,481,000	31.44%

School Board Postemployment VRS Health Insurance Credit

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2)/(3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2010	\$ 12,225	\$ 61,835	\$ 49,610	19.77%	\$ 509,300	9.74%
June 30, 2009	9,347	57,701	48,354	16.20%	534,141	9.05%
June 30, 2008	10,041	66,449	56,408	15.11%	602,759	9.36%

*Only two years of data available

**Only one year of data available

OTHER SUPPLEMENTARY INFORMATION

City of Covington, Virginia
School Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Revenue from the use of money and property	\$ 12,000	\$ 12,000	\$ 18,562	\$ 6,562
Intergovernmental revenues:				
Covington City Schools	-	-	98,134	98,134
Commonwealth	300,000	98,134	-	(98,134)
Total revenues	<u>\$ 312,000</u>	<u>\$ 110,134</u>	<u>\$ 116,696</u>	<u>\$ 6,562</u>
EXPENDITURES				
Debt service:				
Principal retirement	\$ 1,976,353	\$ 2,099,349	\$ -	\$ 2,099,349
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,664,353)</u>	<u>\$ (1,989,215)</u>	<u>\$ 116,696</u>	<u>\$ 2,105,911</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ 323,602	\$ 323,601	\$ (1)
Net change in fund balances	(1,664,353)	(1,665,613)	440,297	2,105,910
Fund balances - beginning	1,664,353	1,665,613	1,665,613	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,105,910</u>	<u>\$ 2,105,910</u>

City of Covington, Virginia
School Construction Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Revenue from the use of money and property	\$ -	\$ 644	\$ 643	\$ (1)
EXPENDITURES				
Capital projects	\$ -	\$ 175,538	\$ 175,538	\$ -
Debt service:				
Principal retirement	-	1,012,385	50,000	962,385
Interest and other fiscal charges	-	596,949	546,947	50,002
Total expenditures	\$ -	\$ 1,784,872	\$ 772,485	\$ 1,012,387
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (1,784,228)	\$ (771,842)	\$ 1,012,386
Net change in fund balances	\$ -	\$ (1,784,228)	\$ (771,842)	\$ 1,012,386
Fund balances - beginning	-	1,784,228	1,784,227	(1)
Fund balances - ending	\$ -	\$ -	\$ 1,012,385	\$ 1,012,385

DISCRETELY PRESENTED COMPONENT UNIT-
SCHOOL BOARD

City of Covington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2011

	School Operating Fund
ASSETS	
Cash and cash equivalents	\$ 897,740
Cash in custody of others	132,400
Receivables (net of allowance for uncollectibles):	
Accounts receivable	32,760
Due from other governmental units	211,329
Inventories	10,107
Prepaid items	123,084
Total assets	<u>\$ 1,407,420</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accrued liabilities	\$ 777,814
Due to primary government	294,788
Total liabilities	<u>\$ 1,072,602</u>
Fund balances:	
Nonspendable:	
Prepaid items	\$ 123,084
Inventory	10,107
Restricted:	
Cafeteria	132,400
Unassigned:	69,227
Total fund balances	<u>\$ 334,818</u>
Total liabilities and fund balances	<u>\$ 1,407,420</u>
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Total fund balances per above	\$ 334,818
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	980,215
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(581,427)
Net assets of governmental activities	<u>\$ 733,606</u>

City of Covington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2011

	School Operating Fund
REVENUES	
Revenue from the use of money and property	\$ 1,388
Charges for services	117,696
Miscellaneous	246,879
Recovered costs	28,592
Intergovernmental revenues:	
Local government	4,030,586
Commonwealth	4,734,589
Federal	1,062,965
Total revenues	<u>\$ 10,222,695</u>
EXPENDITURES	
Current:	
Education	\$ 10,188,221
Capital projects	-
Total expenditures	<u>\$ 10,188,221</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 34,474</u>
Net change in fund balances	\$ 34,474
Fund balances - beginning	300,344
Fund balances - ending	<u><u>\$ 334,818</u></u>
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
Net change in fund balances - total governmental funds - per above	\$ 34,474
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	19,962
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.	(40,914)
Change in net assets of governmental activities	<u><u>\$ 13,522</u></u>

City of Covington, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2011

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 500	\$ 500	\$ 1,388	\$ 888
Charges for services	386,456	386,456	117,696	(268,760)
Miscellaneous	35,352	35,352	246,879	211,527
Recovered costs	55,000	270,000	28,592	(241,408)
Intergovernmental revenues:				
Local government	4,278,613	4,603,613	4,030,586	(573,027)
Commonwealth	4,687,409	4,840,506	4,734,589	(105,917)
Federal	856,970	856,970	1,062,965	205,995
Total revenues	<u>\$ 10,300,300</u>	<u>\$ 10,993,397</u>	<u>\$ 10,222,695</u>	<u>\$ (770,702)</u>
EXPENDITURES				
Current:				
Education	\$ 10,200,300	\$ 10,791,531	\$ 10,188,221	\$ 603,310
Capital projects	100,000	201,866	-	201,866
Total expenditures	<u>\$ 10,300,300</u>	<u>\$ 10,993,397</u>	<u>\$ 10,188,221</u>	<u>\$ 805,176</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,474</u>	<u>\$ 34,474</u>
Net change in fund balances	\$ -	\$ -	\$ 34,474	\$ 34,474
Fund balances - beginning	-	-	300,344	300,344
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334,818</u>	<u>\$ 334,818</u>

SUPPORTING SCHEDULES

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2011

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,914,330	\$ 1,914,330	\$ 1,856,266	\$ (58,064)
Real and personal public service corporation taxes	140,350	140,350	160,924	20,574
Personal property taxes	744,254	744,254	829,260	85,006
Mobile home taxes	8,270	8,270	11,704	3,434
Machinery and tools taxes	4,218,480	4,218,480	4,213,752	(4,728)
Penalties	40,000	40,000	45,434	5,434
Interest	24,000	24,000	31,812	7,812
Total general property taxes	<u>\$ 7,089,684</u>	<u>\$ 7,089,684</u>	<u>\$ 7,149,152</u>	<u>\$ 59,468</u>
Other local taxes:				
Local sales and use taxes	\$ 1,180,000	\$ 1,180,000	\$ 1,206,606	\$ 26,606
Consumers' utility taxes	410,000	410,000	428,202	18,202
Consumption taxes	24,000	24,000	25,047	1,047
Business license taxes	485,000	485,000	504,727	19,727
Motor vehicle licenses	136,765	136,765	94,524	(42,241)
Bank stock taxes	125,000	125,000	157,209	32,209
Recordation tax	25,000	25,000	24,619	(381)
Hotel and motel room taxes	1,200	1,200	8,232	7,032
Restaurant food taxes	848,299	848,299	878,562	30,263
Tobacco taxes	110,000	110,000	117,397	7,397
Total other local taxes	<u>\$ 3,345,264</u>	<u>\$ 3,345,264</u>	<u>\$ 3,445,125</u>	<u>\$ 99,861</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 1,100	\$ 1,100	\$ 1,102	\$ 2
Dog pound fees	600	600	78	(522)
Special use permits	500	500	-	(500)
Zoning and subdivision permits	400	400	1,150	750
Building permits	8,100	8,100	20,853	12,753
Sign permits	100	100	458	358
Other permits and licenses	12,505	12,505	27	(12,478)
Total permits, privilege fees, and regulatory licenses	<u>\$ 23,305</u>	<u>\$ 23,305</u>	<u>\$ 23,668</u>	<u>\$ 363</u>
Fines and forfeitures:				
Court fines and forfeitures	<u>\$ 71,800</u>	<u>\$ 71,800</u>	<u>\$ 17,975</u>	<u>\$ (53,825)</u>
Revenue from use of money and property:				
Revenue from use of money	\$ 25,000	\$ 25,000	\$ 33,736	\$ 8,736
Revenue from use of property	10,000	10,000	13,924	3,924
Total revenue from use of money and property	<u>\$ 35,000</u>	<u>\$ 35,000</u>	<u>\$ 47,660</u>	<u>\$ 12,660</u>
Charges for services:				
Maintenance of highways	\$ -	\$ -	\$ 777	\$ 777
Charges for fire and rescue services	100,000	100,000	100,000	-
Charges for sanitation and waste removal	723,140	723,140	753,557	30,417
Charges for parks and recreation	32,600	32,600	51,954	19,354
Charges for landfill closure	78,000	78,000	59,848	(18,152)

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2011

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Charges for cemetery	\$ 28,000	\$ 28,000	\$ 37,709	\$ 9,709
Charges for other services	425	425	547	122
Total charges for services	\$ 962,165	\$ 962,165	\$ 1,004,392	\$ 42,227
Miscellaneous revenue:				
Miscellaneous	\$ 3,037	\$ 96,287	\$ 45,133	\$ (51,154)
Recovered costs:				
CSA recoveries	\$ -	\$ -	\$ 24,899	\$ 24,899
Other recovered costs	35,000	35,000	7,342	(27,658)
Total recovered costs	\$ 35,000	\$ 35,000	\$ 32,241	\$ (2,759)
Total revenue from local sources	\$ 11,565,255	\$ 11,658,505	\$ 11,765,346	\$ 106,841
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 25,000	\$ 25,000	\$ 14,361	\$ (10,639)
Mobile home titling tax	1,000	1,000	5,251	4,251
Motor vehicle rental tax	-	-	14,281	14,281
State recordation tax	-	-	5,451	5,451
Telecommunications taxes	315,000	315,000	323,497	8,497
Personal property tax relief funds	554,456	554,456	554,456	-
Total noncategorical aid	\$ 895,456	\$ 895,456	\$ 917,297	\$ 21,841
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 62,723	\$ 62,723	\$ 64,074	\$ 1,351
Treasurer	63,947	63,947	65,184	1,237
Medical examiner	50	50	-	(50)
Registrar/electoral board	38,000	38,000	27,650	(10,350)
Total shared expenses	\$ 164,720	\$ 164,720	\$ 156,908	\$ (7,812)
Other categorical aid:				
Welfare payments	\$ 494,825	\$ 494,825	\$ 139,893	\$ (354,932)
CSA payments	667,200	840,246	790,149	(50,097)
Criminal justice grant	266,465	266,465	251,916	(14,549)
Litter control grant	6,300	6,300	5,695	(605)
Technology E-911 grants	39,000	39,000	41,061	2,061
Fire program	18,000	18,000	18,200	200
Asset forfeiture	33,000	33,000	11,272	(21,728)
Local government challenge grant	-	-	5,000	5,000
Two-for-life	5,100	5,100	5,464	364
School resource officer	17,720	17,720	32,821	15,101
Law enforcement block grant	-	-	3,266	3,266
State and local foster care	-	-	1,584	1,584

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2011

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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental revenues: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid: (Continued)				
State highway payments	\$ 833,230	\$ 833,230	\$ 884,514	\$ 51,284
Victim-witness grant	14,155	14,155	12,249	(1,906)
Interoperable communication grant	600,000	600,000	600,000	-
Bulletproof vest program	3,500	3,500	-	(3,500)
Information technology grant	200,000	200,000	-	(200,000)
E-911 grant program	300,000	300,000	-	(300,000)
Emergency medical services	9,346	9,346	6,986	(2,360)
Other State funds	100	100	62	(38)
Total other categorical aid	<u>\$ 3,507,941</u>	<u>\$ 3,680,987</u>	<u>\$ 2,810,132</u>	<u>\$ (870,855)</u>
Total categorical aid	<u>\$ 3,672,661</u>	<u>\$ 3,845,707</u>	<u>\$ 2,967,040</u>	<u>\$ (878,667)</u>
Total revenue from the Commonwealth	<u>\$ 4,568,117</u>	<u>\$ 4,741,163</u>	<u>\$ 3,884,337</u>	<u>\$ (856,826)</u>
Revenue from the federal government:				
Categorical aid:				
USDA community facilities grant	\$ -	\$ -	\$ 33,330	\$ 33,330
Victim witness	42,466	42,466	36,748	(5,718)
Transportation enhancement grant	-	688,035	33,973	(654,062)
Bulletproof vest program grant	-	-	1,480	1,480
Homeland security grants	-	-	9,346	9,346
FEMA emergency management	-	-	20,959	20,959
DMV grant	16,267	16,267	11,923	(4,344)
ARRA - JAG	6,840	6,840	3,343	(3,497)
ARRA - Public assistance and welfare administration	-	-	12,257	12,257
Public assistance and welfare administration	133,125	133,125	207,754	74,629
Total categorical aid	<u>\$ 198,698</u>	<u>\$ 886,733</u>	<u>\$ 371,113</u>	<u>\$ (515,620)</u>
Total revenue from the federal government	<u>\$ 198,698</u>	<u>\$ 886,733</u>	<u>\$ 371,113</u>	<u>\$ (515,620)</u>
Total General Fund	<u>\$ 16,332,070</u>	<u>\$ 17,286,401</u>	<u>\$ 16,020,796</u>	<u>\$ (1,265,605)</u>
Debt Service Fund:				
School Debt Service Reserve Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	<u>\$ 12,000</u>	<u>\$ 12,000</u>	<u>\$ 18,562</u>	<u>\$ 6,562</u>
Intergovernmental revenue:				
Revenues from local governments:				
Contribution from Covington City Schools	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,134</u>	<u>\$ 98,134</u>

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Debt Service Fund: (Continued)				
School Debt Service Reserve Fund: (Continued)				
Intergovernmental revenue: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
School construction payments	\$ 300,000	\$ 98,134	\$ -	\$ (98,134)
Total School Debt Service Fund	\$ 312,000	\$ 110,134	\$ 116,696	\$ 6,562
Capital Projects Fund:				
School Construction Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ 644	\$ 643	\$ (1)
Total School Construction Fund	\$ -	\$ 644	\$ 643	\$ (1)
Total Primary Government	\$ 16,644,070	\$ 17,397,179	\$ 16,138,135	\$ (1,259,044)
Discretely Presented Component Unit - School Board:				
Special Revenue Funds:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 638	\$ 638
Revenue from the use of property	500	500	750	250
Total revenue from use of money and property	\$ 500	\$ 500	\$ 1,388	\$ 888
Charges for services:				
Cafeteria sales	\$ 386,456	\$ 386,456	\$ 117,696	\$ (268,760)
Miscellaneous revenue:				
Miscellaneous	\$ 35,352	\$ 35,352	\$ 246,879	\$ 211,527
Recovered costs:				
Payments from other localities	\$ 55,000	\$ 270,000	\$ 28,592	\$ (241,408)
Total revenue from local sources	\$ 477,308	\$ 692,308	\$ 394,555	\$ (297,753)
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Covington, Virginia	\$ 4,278,613	\$ 4,603,613	\$ 4,030,586	\$ (573,027)
Revenue from the Commonwealth:				
Categorical aid:				
Algebra readiness	\$ 11,583	\$ 9,221	\$ 9,221	\$ -
At risk four year olds	97,720	97,720	97,720	-
At risk payments	85,348	88,309	88,309	-
Basic school aid	2,642,702	2,737,558	2,630,068	(107,490)
Early reading intervention	15,745	20,244	20,244	-
Education technology payment	128,000	128,000	128,000	-

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
Special Revenue Funds: (Continued)				
School Operating Fund: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
English as a second language	\$ 1,199	\$ 1,998	\$ 1,998	\$ -
Fringe benefits	274,412	284,462	284,336	(126)
Gifted and talented	27,380	28,383	28,370	(13)
Other state funds	-	-	298	298
ISAEF program	7,859	7,859	7,859	-
Lottery funds	-	-	23,205	23,205
National board certification teacher bonus	-	-	5,000	5,000
Primary class size	138,878	134,161	134,161	-
Remedial education	96,136	99,656	99,612	(44)
School food	7,989	9,806	9,899	93
Remedial summer education	23,056	20,683	20,683	-
Share of state sales tax	585,755	609,808	609,700	(108)
Special education	372,739	385,362	385,191	(171)
Special education - foster children	37,917	36,094	36,930	836
Textbook payment	31,968	33,139	9,919	(23,220)
Vocational education	96,136	99,656	99,612	(44)
Vocational education - equipment	-	-	2,521	2,521
Vocational education - technology	4,887	8,387	545	(7,842)
Vocational occupational preparedness	-	-	1,188	1,188
Total categorical aid	\$ 4,687,409	\$ 4,840,506	\$ 4,734,589	\$ (105,917)
Total revenue from the Commonwealth	\$ 4,687,409	\$ 4,840,506	\$ 4,734,589	\$ (105,917)
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 319,387	\$ 319,387	\$ 197,941	\$ (121,446)
ARRA - Title I	-	-	77,241	77,241
Title VI-B, special education flow-through	213,614	213,614	198,006	(15,608)
ARRA - Title VI-B, special education flow-through	-	-	55,814	55,814
Vocational education	17,500	17,500	18,085	585
Title VI-B, special education pre-school	10,273	10,273	10,273	-
Drug free schools	8,196	8,196	-	(8,196)
School lunch program	220,000	220,000	268,741	48,741
School lunch commodities	-	-	19,322	19,322
ARRA - State fiscal stabilization funds	-	-	154,286	154,286
Education technology	5,000	5,000	1,690	(3,310)
ARRA - Education technology	-	-	92	92
Class size reduction	63,000	63,000	61,474	(1,526)
Total categorical aid	\$ 856,970	\$ 856,970	\$ 1,062,965	\$ 205,995
Total revenue from the federal government	\$ 856,970	\$ 856,970	\$ 1,062,965	\$ 205,995
Total Discretely Presented Component Unit - School Board	\$ 10,300,300	\$ 10,993,397	\$ 10,222,695	\$ (770,702)

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2011

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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
City council	\$ 34,383	\$ 36,383	\$ 36,018	\$ 365
City clerk	11,096	11,360	11,305	55
Total legislative	<u>\$ 45,479</u>	<u>\$ 47,743</u>	<u>\$ 47,323</u>	<u>\$ 420</u>
General and financial administration:				
City manager	\$ 262,812	\$ 262,812	\$ 239,774	\$ 23,038
Information technology	28,900	28,900	26,242	2,658
Legal services	42,545	98,545	88,607	9,938
Commissioner of revenue	214,756	214,756	210,574	4,182
Independent auditors	53,780	53,780	36,393	17,387
Treasurer	265,486	265,486	257,940	7,546
Central accounting	383,358	383,358	376,397	6,961
Assessment board	78,400	78,400	77,621	779
Total general and financial administration	<u>\$ 1,330,037</u>	<u>\$ 1,386,037</u>	<u>\$ 1,313,548</u>	<u>\$ 72,489</u>
Board of elections:				
Electoral board and officials	\$ 77,351	\$ 77,351	\$ 68,042	\$ 9,309
Total general government administration	<u>\$ 1,452,867</u>	<u>\$ 1,511,131</u>	<u>\$ 1,428,913</u>	<u>\$ 82,218</u>
Judicial administration:				
Courts:				
Circuit court	\$ 9,319	\$ 9,965	\$ 9,965	\$ -
General district court	5,652	4,280	4,280	-
Magistrates office	6,523	6,523	1,930	4,593
Clerk of the circuit court	37,116	34,794	34,794	-
Sheriff (court)	49,781	51,184	51,184	-
Total courts	<u>\$ 108,391</u>	<u>\$ 106,746</u>	<u>\$ 102,153</u>	<u>\$ 4,593</u>
Commonwealth's attorney:				
Commonwealth's attorney	\$ 19,954	\$ 21,599	\$ 32,845	\$ (11,246)
Total judicial administration	<u>\$ 128,345</u>	<u>\$ 128,345</u>	<u>\$ 134,998</u>	<u>\$ (6,653)</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,254,277	\$ 1,250,397	\$ 1,234,038	\$ 16,359
Sheriff	198,445	198,445	216,220	(17,775)
Victim witness	56,732	56,621	49,106	7,515
E-911 wireless grant	1,631,213	1,631,985	524,390	1,107,595
School resource officer	54,436	54,436	54,203	233
Seizure/forfeiture funds	66,800	66,800	13,263	53,537
Total law enforcement and traffic control	<u>\$ 3,261,903</u>	<u>\$ 3,258,684</u>	<u>\$ 2,091,220</u>	<u>\$ 1,167,464</u>
Fire and rescue services:				
Volunteer fire department	\$ 180,318	\$ 190,318	\$ 180,851	\$ 9,467
Ambulance service	74,049	83,447	77,182	6,265
Total fire and rescue services	<u>\$ 254,367</u>	<u>\$ 273,765</u>	<u>\$ 258,033</u>	<u>\$ 15,732</u>

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2011

Schedule 2
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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Public safety: (Continued)				
Correction and detention:				
Sheriff (jail)	\$ 142,795	\$ 142,795	\$ 168,445	\$ (25,650)
Probation office	6,027	7,081	4,893	2,188
Total correction and detention	<u>\$ 148,822</u>	<u>\$ 149,876</u>	<u>\$ 173,338</u>	<u>\$ (23,462)</u>
Inspections:				
Building	\$ 105,563	\$ 110,763	\$ 83,602	\$ 27,161
Other protection:				
Animal control	\$ 100,716	\$ 109,716	\$ 108,808	\$ 908
Medical examiner	100	100	20	80
Total other protection	<u>\$ 100,816</u>	<u>\$ 109,816</u>	<u>\$ 108,828</u>	<u>\$ 988</u>
Total public safety	<u>\$ 3,871,471</u>	<u>\$ 3,902,904</u>	<u>\$ 2,715,021</u>	<u>\$ 1,187,883</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 133,305	\$ 186,555	\$ 127,647	\$ 58,908
Street department	999,959	1,056,371	1,006,080	50,291
Snow and ice removal	23,719	19,719	16,637	3,082
Traffic engineering	152,232	140,232	111,434	28,798
Street lights	180,000	180,000	159,408	20,592
Total maintenance of highways, streets, bridges & sidewalks	<u>\$ 1,489,215</u>	<u>\$ 1,582,877</u>	<u>\$ 1,421,206</u>	<u>\$ 161,671</u>
Sanitation and waste removal:				
Refuse collection	\$ 290,125	\$ 287,872	\$ 288,041	\$ (169)
Refuse disposal	512,838	528,112	494,674	33,438
Street cleaning	4,350	4,350	-	4,350
Landfill closure	38,000	38,000	1,621	36,379
Litter control grant	6,300	6,300	5,695	605
Recycling program	27,000	27,000	24,750	2,250
Total sanitation and waste removal	<u>\$ 878,613</u>	<u>\$ 891,634</u>	<u>\$ 814,781</u>	<u>\$ 76,853</u>
Maintenance of general buildings and grounds:				
General properties	\$ 427,715	\$ 427,715	\$ 289,788	\$ 137,927
Motor vehicular maintenance	69,000	69,000	1,544	67,456
Total maintenance of general buildings and grounds	<u>\$ 496,715</u>	<u>\$ 496,715</u>	<u>\$ 291,332</u>	<u>\$ 205,383</u>
Total public works	<u>\$ 2,864,543</u>	<u>\$ 2,971,226</u>	<u>\$ 2,527,319</u>	<u>\$ 443,907</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 88,336	\$ 88,336	\$ 88,336	\$ -
Alleghany Highlands free clinic	7,000	7,000	7,000	-
Total health	<u>\$ 95,336</u>	<u>\$ 95,336</u>	<u>\$ 95,336</u>	<u>\$ -</u>
Mental health and mental retardation:				
Alleghany Highlands community services board	\$ 20,000	\$ 20,000	\$ 20,000	\$ -

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2011

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<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Health and welfare: (Continued)				
Welfare:				
T. A. P.	\$ 6,000	\$ 6,000	\$ 6,000	\$ -
Safehomes, Inc.	2,000	2,000	2,000	-
Jackson river enterprise	13,000	13,000	13,000	-
Second harvest food bank	600	600	600	-
Alleghany Highlands CSA foster care	850,000	1,156,395	1,086,023	70,372
HOPE, Inc.	500	500	500	-
Social Services	675,000	599,215	535,199	64,016
Other welfare	7,500	7,500	31,602	(24,102)
Total welfare	\$ 1,554,600	\$ 1,785,210	\$ 1,674,924	\$ 110,286
Total health and welfare	\$ 1,669,936	\$ 1,900,546	\$ 1,790,260	\$ 110,286
Education:				
Other instructional costs:				
Contributions to Community College	\$ 1,500	\$ 1,500	\$ 1,500	\$ -
Contribution to City School Board	4,278,613	4,603,613	4,128,720	474,893
Total education	\$ 4,280,113	\$ 4,605,113	\$ 4,130,220	\$ 474,893
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 828,622	\$ 903,122	\$ 846,933	\$ 56,189
Pedestrian/bicycle improvements	-	741,285	58,428	682,857
Total parks and recreation	\$ 828,622	\$ 1,644,407	\$ 905,361	\$ 739,046
Cultural enrichment:				
Senior center	\$ 106,507	\$ 95,007	\$ 71,793	\$ 23,214
Cemetery	178,996	178,996	168,664	10,332
League of older Americans	2,418	2,418	2,418	-
Salvation Army	5,000	5,000	5,000	-
Alleghany Highlands arts council	7,200	7,200	7,200	-
Alleghany Highlands arts/craft center	2,800	2,800	2,800	-
Total cultural enrichment	\$ 302,921	\$ 291,421	\$ 257,875	\$ 33,546
Library:				
Contribution to regional library	\$ 100,000	\$ 115,400	\$ 117,327	\$ (1,927)
Total parks, recreation, and cultural	\$ 1,231,543	\$ 2,051,228	\$ 1,280,563	\$ 770,665
Community development:				
Planning and community development:				
Planning commission	\$ 9,556	\$ 9,556	\$ 6,277	\$ 3,279
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	612	612	164	448
Economic development	41,875	45,375	45,375	-
Total planning and community development	\$ 72,043	\$ 75,543	\$ 71,816	\$ 3,727
Environmental management:				
Contribution to soil and water district	\$ 2,000	\$ 2,000	\$ 2,000	\$ -

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2011

Schedule 2
Page 4 of 5

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Community development: (Continued)				
Cooperative extension program:				
Extension office	\$ 5,500	\$ 5,500	\$ 5,500	\$ -
Total community development	\$ 79,543	\$ 83,043	\$ 79,316	\$ 3,727
Nondepartmental:				
Contingencies	\$ 73,000	\$ 50,282	\$ 11,192	\$ 39,090
Debt service:				
Principal retirement	\$ 556,496	\$ 556,496	\$ 501,540	\$ 54,956
Interest and other fiscal charges	736,279	736,279	710,365	25,914
Total debt service	\$ 1,292,775	\$ 1,292,775	\$ 1,211,905	\$ 80,870
Total General Fund	\$ 16,944,136	\$ 18,496,593	\$ 15,309,707	\$ 3,186,886
Debt Service Fund:				
School Debt Service Fund:				
Debt service:				
Principal retirement	\$ 1,976,353	\$ 2,099,349	\$ -	\$ 2,099,349
Total School Debt Service Fund	\$ 1,976,353	\$ 2,099,349	\$ -	\$ 2,099,349
Capital projects fund:				
School Construction Fund:				
Capital Outlay:				
School construction	\$ -	\$ 175,538	\$ 175,538	\$ -
Debt Service				
Principal	\$ -	\$ 1,012,385	\$ 50,000	\$ 962,385
Interest	-	596,949	546,947	50,002
Total Debt Service	\$ -	\$ 1,609,334	\$ 596,947	\$ 1,012,387
Total School Construction Fund	\$ -	\$ 1,784,872	\$ 772,485	\$ 1,012,387
Total Primary Government	\$ 16,944,136	\$ 20,281,465	\$ 16,082,192	\$ 4,199,273

City of Covington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2011

Schedule 2
Page 5 of 5

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board:				
Special revenue funds:				
School Operating Fund:				
Education:				
Administration of schools:				
Attendance and health services	\$ 270,459	\$ 306,049	\$ 277,957	\$ 28,092
Executive administration services	263,721	285,284	278,520	6,764
Total administration of schools	<u>\$ 534,180</u>	<u>\$ 591,333</u>	<u>\$ 556,477</u>	<u>\$ 34,856</u>
Instruction costs:				
Instruction costs	<u>\$ 7,352,740</u>	<u>\$ 7,616,659</u>	<u>\$ 7,402,218</u>	<u>\$ 214,441</u>
School food services:				
Administration of school food program	<u>\$ 673,760</u>	<u>\$ 757,904</u>	<u>\$ 491,247</u>	<u>\$ 266,657</u>
Operating costs:				
Pupil transportation	\$ 274,518	\$ 415,844	\$ 407,135	\$ 8,709
Operation and maintenance of school plant	1,008,863	1,057,257	1,004,408	52,849
Facilities	202,639	192,884	174,420	18,464
Technology	153,600	159,650	152,316	7,334
Total operating costs	<u>\$ 1,639,620</u>	<u>\$ 1,825,635</u>	<u>\$ 1,738,279</u>	<u>\$ 87,356</u>
Total education	<u>\$ 10,200,300</u>	<u>\$ 10,791,531</u>	<u>\$ 10,188,221</u>	<u>\$ 603,310</u>
Capital projects:				
School capital projects	<u>\$ 100,000</u>	<u>\$ 201,866</u>	<u>\$ -</u>	<u>\$ 201,866</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 10,300,300</u>	<u>\$ 10,993,397</u>	<u>\$ 10,188,221</u>	<u>\$ 805,176</u>

OTHER STATISTICAL SECTION

Table 1

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water Department	Sewer Department	Total
2010-11	\$ 1,534,458	\$ 134,998	\$ 2,955,125	\$ 3,425,828	\$ 1,765,361	\$ 4,683,660	\$ 1,307,295	\$ 79,316	\$ 1,198,756	\$ 1,213,104	\$ 994,309	\$ 19,292,210
2009-10	1,483,169	122,901	2,819,474	1,913,115	1,700,110	3,825,555	1,320,420	99,201	1,256,643	1,322,656	998,491	16,861,735
2008-09	1,580,103	61,292	2,979,472	3,802,359	1,494,392	4,551,266	1,195,610	110,214	864,835	1,243,549	1,004,442	18,887,534
2007-08	1,429,516	78,185	2,770,525	3,824,813	1,361,609	4,183,893	1,220,322	107,562	894,475	1,244,985	976,235	18,092,120
2006-07	1,348,829	94,087	1,806,435	2,859,288	1,338,133	4,127,562	1,162,741	131,916	225,605	1,200,931	956,660	15,252,187
2005-06	1,282,421	96,343	2,633,846	2,715,275	1,940,992	4,354,525	1,723,619	148,008	253,885	1,221,055	976,948	17,346,917
2004-05	1,253,035	70,963	2,507,755	2,693,743	1,763,883	4,163,615	1,619,498	100,564	275,249	1,131,485	961,547	16,541,337
2003-04	1,121,931	69,451	2,156,715	3,644,914	1,275,738	4,587,526	1,668,570	324,659	299,280	1,121,311	937,552	17,207,647
2002-03	1,055,705	50,433	2,142,205	2,717,084	1,254,643	3,594,198	1,179,695	561,154	349,266	1,130,580	995,815	15,030,778

(1) Information has only been available for 9 years.

Table 2

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

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES							Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Gain on Sale of Capital Assets		
2010-11	\$ 4,170,379	\$ 3,304,823	\$ 684,814	\$ 7,184,718	\$ 3,445,125	\$ 66,865	\$ 66,814	\$ 917,297	\$ 7,011	\$ 19,847,846	
2009-10	4,165,888	2,618,316	75,794	7,051,615	3,170,222	66,549	186,667	896,005	-	18,231,056	
2008-09	4,006,079	2,696,980	4,900	6,937,869	3,396,974	237,828	94,651	825,521	-	18,200,802	
2007-08	4,074,449	3,076,482	2,800	6,618,780	3,533,607	574,455	124,710	-	-	18,005,283	
2006-07	3,947,907	2,343,564	441,313	6,984,763	3,452,298	79,295	567,379	843,290	-	18,659,809	
2005-06	3,385,156	2,761,961	12,466	6,690,501	3,450,717	98,716	268,694	354,969	-	17,023,180	
2004-05	3,314,632	2,937,429	355,952	6,350,711	3,588,473	33,427	140,613	555,303	-	17,276,540	
2003-04	3,485,319	2,388,752	190,160	6,626,610	2,736,083	28,838	651,196	584,240	-	16,691,198	
2002-03	3,479,541	2,334,219	-	6,395,508	2,814,568	40,413	369,127	803,894	-	16,237,270	

(1) Information has only been available for 9 years.

Table 3

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural	Community Development	Capital Projects	Non-departmental	Debt Service (3)	Total
2010-11	\$ 1,428,913	\$ 134,998	\$ 2,715,021	\$ 2,527,319	\$ 1,790,260	\$ 10,189,721	\$ 1,280,563	\$ 79,316	\$ 175,538	\$ 11,192	\$ 1,808,852	\$ 22,141,693
2009-10	1,334,414	122,901	2,955,446	2,696,909	1,724,165	9,833,368	1,484,555	99,201	869,412	-	1,801,162	22,921,533
2008-09	1,391,596	61,292	2,852,747	2,825,693	1,514,709	10,524,500	1,390,990	110,214	13,001,350	20,118	1,562,846	35,256,055
2007-08	1,433,034	78,185	2,589,022	3,877,615	1,397,869	10,692,037	1,329,602	107,562	9,022,652	816	1,548,023	32,076,417
2006-07	1,425,506	94,087	2,582,309	2,985,907	1,338,133	10,062,235	2,237,175	132,564	716,075	3,303	871,293	22,448,587
2005-06	1,225,103	96,343	2,449,642	2,585,665	1,939,910	9,760,811	1,864,709	147,992	813,456	5,674	1,291,859	22,181,164
2004-05	1,291,565	70,963	3,262,783	2,620,625	1,810,388	9,692,992	1,741,903	100,474	244,943	-	888,696	21,725,332
2003-04	1,160,650	69,451	2,060,032	2,326,777	1,271,537	9,541,118	1,763,737	324,601	-	-	909,478	19,427,381
2002-03	1,133,611	50,433	2,222,311	2,456,115	1,254,643	8,430,439	1,512,747	564,553	310,982	-	904,096	18,839,930
2001-02	1,112,732	60,554	2,396,332	3,052,489	1,361,425	8,194,998	1,061,846	1,086,774	771,186	-	865,450	19,963,786

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

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

(3) For fiscal year 2009-10, excludes bond anticipation refunding of \$15,000,000 and related bond issuance cost of \$232,400.

Table 4

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
2010-11	\$ 7,149,152	\$ 3,445,125	\$ 23,668	\$ 17,975	\$ 68,253	\$ 1,122,088	\$ 292,012	\$ 60,833	\$ 10,053,004	\$ 22,232,110
2009-10	7,058,693	3,170,222	9,584	33,647	67,929	946,815	213,963	175,928	9,813,945	21,490,726
2008-09	6,915,610	3,396,974	10,169	42,445	240,204	1,121,997	178,158	288,769	9,786,230	21,980,556
2007-08	6,949,940	3,533,607	15,574	32,644	575,228	1,095,585	122,925	171,692	9,546,958	22,044,153
2006-07	6,705,292	3,452,298	11,610	31,006	79,295	1,038,299	567,379	179,877	10,306,054	22,371,110
2005-06	6,597,703	3,450,717	10,182	38,443	98,843	1,083,947	267,250	148,868	8,867,579	20,563,532
2004-05	6,457,064	3,588,473	11,600	23,813	33,967	918,580	170,854	269,656	9,306,820	20,780,827
2003-04	6,621,945	2,736,083	13,386	25,082	29,593	1,112,448	652,947	246,078	8,063,594	19,501,156
2002-03	6,382,305	2,814,568	12,126	31,476	41,634	1,011,604	399,535	1,715,041	7,756,609	20,164,898
2001-02	6,319,457	2,963,757	14,953	23,159	78,672	641,818	140,684	258,253	8,107,512	18,548,265

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

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

Table 5

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

Fiscal Year	Total Tax Levy (1,3)	Current Tax Collections (1,3)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1,2)	Percent of Delinquent Taxes to Tax Levy
2010-11	\$ 7,626,798	\$ 7,545,962	98.94%	\$ 80,400	\$ 7,626,362	99.99%	\$ 427,671	5.61%
2009-10	7,535,231	7,396,523	98.16%	130,551	7,527,074	99.89%	439,189	5.83%
2008-09	7,383,021	7,300,339	98.88%	67,143	7,367,482	99.79%	407,773	5.52%
2007-08	7,412,981	6,803,543	91.78%	73,600	6,877,143	92.77%	512,105	6.91%
2006-07	7,154,153	6,670,832	93.24%	68,673	6,739,505	94.20%	448,588	6.27%
2005-06	7,067,230	6,465,933	91.49%	77,498	6,543,431	92.59%	408,182	5.78%
2004-05	6,857,539	6,817,256	99.41%	81,683	6,898,939	100.60%	449,657	6.56%
2003-04	7,005,380	6,968,616	99.48%	122,041	7,090,657	101.22%	452,027	6.45%
2002-03	6,953,414	6,780,315	97.51%	81,378	6,861,693	98.68%	457,776	6.58%
2001-02	6,899,592	6,728,972	97.53%	58,138	6,787,110	98.37%	398,483	5.78%

(1) Exclusive of penalties and interest.

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

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

Table 6

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

Fiscal Year	Real Estate (1)	Personal Property and	Machinery and	Public Utility (2)		Total
		Mobile Homes	Tools	Real Estate	Personal Property	
2010-11	\$ 283,502,400	\$ 26,077,480	\$ 76,660,640	\$ 22,727,986	\$ 89,861	\$ 409,058,367
2009-10	282,219,900	24,892,990	76,096,510	21,401,377	35,464	404,646,241
2008-09	281,865,500	22,555,370	75,747,170	21,429,843	72,863	401,670,746
2007-08	280,613,600	22,563,190	76,476,640	19,700,864	7,786	399,362,080
2006-07	247,361,800	22,315,930	75,520,600	20,174,443	8,201	365,380,974
2005-06	244,652,300	21,888,230	75,115,640	19,402,713	20,924	361,079,807
2004-05	244,055,089	19,427,376	73,783,780	20,211,474	14,129	357,491,848
2003-04	242,385,405	18,505,757	77,683,500	20,318,577	15,167	358,908,406
2002-03	223,834,368	20,288,738	75,406,440	20,099,666	29,418	339,658,630
2001-02	223,019,631	20,102,128	74,671,325	20,758,082	34,879	338,586,045

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

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

Table 7

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

Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
2010-11	\$ 0.66	\$ 0.66	\$ 5.60	\$ 5.52
2009-10	0.66	0.66	5.60	5.52
2008-09	0.66	0.66	5.60	5.52
2007-08	0.66	0.66	5.60	5.52
2006-07	0.66	0.66	5.60	5.52
2005-06	0.66	0.66	5.60	5.52
2004-05	0.66	0.66	5.60	5.53
2003-04	0.66	0.66	5.60	5.53
2002-03	0.71	0.71	5.60	5.53
2001-02	0.71	0.71	5.60	5.53

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2010-11	5,961	\$ 409,058	\$ 31,830,269	7.78%	\$ 5,340
2009-10	6,303	404,646	31,497,499	7.78%	4,997
2008-09	6,303	401,671	32,624,875	8.12%	5,176
2007-08	6,303	399,362	33,812,244	8.47%	5,364
2006-07	6,303	365,381	7,499,055	2.05%	1,190
2005-06	6,303	361,080	8,506,460	2.36%	1,350
2004-05	6,303	357,492	9,529,596	2.67%	1,512
2003-04	6,303	358,908	10,425,000	2.90%	1,654
2002-03	6,303	339,659	11,452,500	3.37%	1,817
2001-02	6,303	338,586	12,440,000	3.67%	1,974

(1) Bureau of the Census.

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

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

Table 9

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

Fiscal Year	Principal (3)	Interest (2)	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2010-11	\$ 551,540	\$ 1,257,312	\$ 1,808,852	\$ 22,141,693	8.17%
2009-10	569,703	1,231,459	1,801,162	22,921,533	7.86%
2008-09	668,841	894,005	1,562,846	35,256,055	4.43%
2007-08	650,800	237,312	888,112	32,076,417	2.77%
2006-07	643,813	227,480	871,293	22,448,587	3.88%
2005-06	872,509	253,748	1,126,257	22,181,164	5.08%
2004-05	612,263	276,433	888,696	21,725,332	4.09%
2003-04	602,218	307,260	909,478	19,427,381	4.68%
2002-03	550,792	353,304	904,096	18,839,930	4.80%
2001-02	510,487	354,963	865,450	19,963,786	4.34%

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

(2) Excludes bond issuance and other costs.

(3) Excludes refinancing of bond anticipation note.

CITY OF COVINGTON

Computation of Legal Debt Margin

At June 30, 2011

Legal Debt Limit:		
10% of Assessed Value of Taxable Real Estate \$283,502,400	\$	28,350,240
Deduct:		
Debt Payable		20,440,269
Legal Margin for Creation of Additional Debt	\$	<u><u>7,909,971</u></u>

CITY OF COVINGTON, VIRGINIA
Schedule of Joint Costs with the County of Alleghany
For the Year Ended June 30, 2011

Expenditures:	
Judicial Administration:	
Courts:	
Circuit court	\$ 73,351
General district court	16,987
Clerk of the circuit court	421,881
Sheriff	395,316
Commonwealth's attorney:	
Commonwealth's attorney	484,760
Public Safety:	
Law enforcement and traffic control:	
Sheriff	1,557,142
National Forest Patrol	4,079
Correction and detention:	
Sheriff	1,806,328
Courthouse security:	
Courthouse security	81,519
Public Works:	
Maintenance of general buildings and grounds:	
General properties	69,252
Jail	239,878
Total Expenditures	\$ 5,150,493
Revenues:	
General Fund:	
Revenues from local sources:	
Fines and forfeitures	\$ 81,830
Sales of materials and supplies	12,825
Charges for services:	
Correction and detention	1,824
Prisoner payments	17,546
Courthouse maintenance	16,918
SSA bounty payments	3,600
Charges for Commonwealth's attorney and court appointed attorney	2,453
Courthouse security	78,027
Recovered costs:	
Salary of Judge's secretary	1,714
Bath Co. Share-Jail	78,541
Care of prisoners - Commonwealth	181,748
Miscellaneous Revenue	9,971
District court postage	6,047

CITY OF COVINGTON, VIRGINIA
Schedule of Joint Costs with the County of Alleghany
For the Year Ended June 30, 2011

Revenues: (continued)				
General Fund: (continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Shared Expenses:				
Commonwealth's attorney			\$	355,269
Sheriff				1,892,612
Clerk				298,929
Other Categorical Aid:				
DoH-Bike Grant				1,000
Revenue from the Federal Government:				
DMV grants				24,120
Total Revenues			\$	3,064,974
Net Expenditures applicable to County and City			\$	2,085,519
Allocation:				
	Population	Percent of Total	Total	
County's share of net expenditures	16,250	73.16%	\$	1,525,766
County's share of audit cost				4,619
Total of County's share			\$	1,530,385
City's share of net expenditures	5,961	26.84%	\$	559,753
City's share of audit cost				1,695
Total of City's share			\$	561,448
Reconciliation of Account with County	General	Magistrate	Probation	Total
Balance due to County (City) at July 1, 2010	\$ 91,393	\$ 774	\$ 472	\$ 92,639 *
Less:				
Remittances by City based on budget estimates for FY 2011	(602,796)	(1,890)	(1,793)	(606,479)
City's share of expenditures	561,448	2,301	2,620	566,369
Balance due to County (City) at June 30, 2011	\$ 50,045	\$ 1,185	\$ 1,299	\$ 52,529

* The City is contesting this amount due to the County of Alleghany.

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Covington, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the City of Covington, Virginia's basic financial statements and have issued our report thereon dated November 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Covington, Virginia's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting [2011-1]. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Governmental Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2011-2.

We noted certain matters that we reported to management of the City of Covington, Virginia in a separate letter dated November 22, 2011.

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

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

Robinson, Turner, Cox Associates

Christiansburg, Virginia
November 22, 2011

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

Compliance

We have audited the City of Covington, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Covington, Virginia's major federal programs for the year ended June 30, 2011. The City of Covington, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Covington, Virginia's management. Our responsibility is to express an opinion on the City of Covington, Virginia's compliance based on our audit.

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

In our opinion, the City of Covington, Virginia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over

compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Robinson, Turner, Cox Associates

Christiansburg, Virginia
November 22, 2011

CITY OF COVINGTON, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<i>DEPARTMENT OF AGRICULTURE:</i>			
Pass Through Payments:			
<i>State Department of Agriculture:</i>			
School Nutrition Cluster:			
Food Distribution-Schools (Note 3)	10.555	Not applicable	\$ 19,322
<i>Department of Education:</i>			
School Nutrition Cluster:			
National School Lunch Program	10.555	40623	<u>197,436</u> \$ 216,758
<i>Department of Education:</i>			
School Nutrition Cluster:			
School Breakfast Program	10.553	40591	71,305
<i>Rural Development:</i>			
Community Facilities Grant	10.766	Not applicable	\$ 33,330
Total Department of Agriculture			<u>\$ 321,393</u>
<i>DEPARTMENT OF EDUCATION:</i>			
Pass Through Payments:			
<i>Department of Education:</i>			
Title I; Part A Cluster:			
Title I - Grants to Local Educational Agencies	84.010	42901	\$ 197,941
ARRA - Title I - Grants to Local Educational Agencies	84.389	42913	77,241
Special Education Cluster:			
Special Education - Grants to States (Title VI-B)	84.027	43071	198,006
ARRA - Special Education - Grants to States (Title VI-B)	84.391	61245	55,814
Special Education - Preschool Grants	84.173	62521	10,273
Career and Technical Education - Basic Grants to States	84.048	61095	18,085
Education Technology Cluster:			
Education Technology State Grants	84.318	61600	1,690
ARRA - Education Technology State Grants	84.386	60897	92
ARRA - State Fiscal Stabilization Fund (SFSF)-Education State Grants	84.394	62532	154,286
Improving Teacher Quality - State Grants	84.367	61480	61,474
Total Department of Education			<u>\$ 774,902</u>
<i>DEPARTMENT OF JUSTICE:</i>			
Direct Payments:			
Bulletproof Vest Partnership Program	16.607	Not applicable	\$ 1,480
Pass Through Payments:			
<i>Compensation Board:</i>			
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	09SUB90033	3,343
<i>Department of Criminal Justice Services:</i>			
Crime Victim Assistance	16.575	10VAGX0095	36,748
Total Department of Justice			<u>\$ 41,571</u>
<i>DEPARTMENT OF HOMELAND SECURITY:</i>			
Pass Through Payments:			
<i>Department of Emergency Management:</i>			
State Homeland Security Program	97.073	52740	\$ 9,346
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	146	20,959
Total Department of Homeland Security			<u>\$ 30,305</u>

CITY OF COVINGTON, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<i>DEPARTMENT OF TRANSPORTATION:</i>			
Pass Through Payments:			
<i>Department of Motor Vehicles:</i>			
State and Community Highway Safety	20.600	SC-2011 51344 4286	\$ 2,798
Alcohol Open Container Requirements	20.607	154AL-201 50374 3994	9,125
<i>Virginia Department of Transportation (VDOT):</i>			
Highway Planning and Construction	20.205	EN04107124 EN02107152	33,973
Total Department of Transportation			<u>\$ 45,896</u>
<i>ENVIRONMENTAL PROTECTION AGENCY:</i>			
Pass Through Payments:			
<i>Virginia Resource Authority:</i>			
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	Not applicable	<u>\$ 318,350</u>
<i>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</i>			
Pass Through Payments:			
<i>Department of Social Services:</i>			
Promoting Safe and Stable Families	93.556	0950110,0950111	\$ 10,313
Temporary Assistance for Needy Families (TANF)	93.558	0400110,0400111	4,652
Child Care and Development Cluster:			
Child Care and Development Block Grant	93.575	0770110	34,890
ARRA - Child Care and Development Block Grant	93.713	0740109,0780109	2,604
Child Care Mandatory and Matching Funds of the Care and Development Fund	93.596	0760110,0760111	7,643
Chafee Education and Training Vouchers Program	93.599	9160110	1,400
Foster Care - Title IV-E	93.658	1100110,1100111	\$ 75,976
ARRA - Foster Care - Title IV-E	93.658	1100110,1100111	6,840
Adoption Assistance	93.659	1120110,1120111	\$ 39,961
ARRA - Adoption Assistance	93.659	1120110,1120111	2,813
Social Services Block Grant	93.667	1000110,1000111	29,815
Chafee Foster Care Independence Program	93.674	915110,9150111	3,104
Total Department of Health and Human Services			<u>\$ 220,011</u>
Total Expenditures of Federal Awards			<u>\$ 1,752,428</u>

NOTE 1--BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Covington, Virginia under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Covington, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Covington, Virginia.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

(2) Pass-through entity identifying numbers are presented where available.

CITY OF COVINGTON, VIRGINIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

NOTE 3--FOOD DISTRIBUTION:

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2011, the Covington City School Board held food commodities totaling \$10,107 in inventory.

NOTE 4 -- RELATIONSHIP TO THE FINANCIAL STATEMENTS:

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

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General Fund	\$ 371,113
Sewer Fund	<u>318,350</u>

Total primary government:	\$ 689,463
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Component Unit Schools:

School Operating Fund	<u>\$ 1,062,965</u>
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Total Federal Expenditures per Basic Financial Statements	<u><u>\$ 1,752,428</u></u>
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City of Covington, Virginia

Schedule of Findings, Responses and Questioned Costs
Year Ended June 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted? Yes

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: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section .510 (a)?

No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
84.027/84.137/84.391/84.392	Special Education Cluster
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants
84.010/84.389	Title I; Part A Cluster
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A
and Type B programs

\$300,000

Auditee qualified as low-risk auditee?

No

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City of Covington, Virginia

Schedule of Findings, Responses and Questioned Costs
Year Ended June 30, 2011

Section II - Financial Statement Findings

2011-1

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

2011-2

Criteria:	The <u>Code of Virginia</u> , (1950), requires that CSA pool expenditures be related to public or private nonresidential or residential services for troubled youths and families. The Auditor of Public Accounts (APA) requires that these expenditures be supported with written contracts or service agreements and an approved amount for the expenditure approved by the local social services board.
Condition:	The City did not use the Uniform Documentation Inventory to assist the Community Policy and Management Team (CPMT) with development and maintenance of case documentation.
Context:	Twenty five invoices were selected for testing. Two were lacking service agreements and four were lacking an approval for expenses by the CPMT. There was also a discrepancy in one case's name.
Cause of Condition:	Turnover in staff
Effect of Condition:	The City was unable to provide service agreements or an amount approved for expense by the CPMT for numerous cases.
Recommendation:	The City should use the Uniform Documentation Inventory as recommended by CSA.
Management's Response:	Management will begin to use the Uniform Documentation Inventory as recommended to ensure proper documentation is available for supporting CSA pool expenditures.

City of Covington, Virginia

Schedule of Findings, Responses and Questioned Costs
Year Ended June 30, 2011

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Audit Findings and Questioned Costs

2010-1 is recurring in the current year. 2010-2 was corrected during the current year.