

**CITY OF COVINGTON, VIRGINIA**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2012**

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CITY OF COVINGTON, VIRGINIA  
 FINANCIAL REPORT  
 FISCAL YEAR ENDED JUNE 30, 2012

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## INTRODUCTORY SECTION

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# CITY OF COVINGTON, VIRGINIA

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## CITY COUNCIL

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Thomas H. Sibold, Jr., Mayor  
William B. Zimmerman, Jr., Vice-Mayor  
David S. Crosier  
Stephanie R. Clark  
Kim L. Warlitner

## CITY SCHOOL BOARD

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Danny Warlitner, Chair  
Richard Fuhrman, Vice-Chairman  
Ron Morrissette  
Eddy Clemons  
John Woodzell

## OTHER OFFICIALS

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City Manager, Interim ..... Joseph B. Broughman  
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

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**FINANCIAL SECTION**

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## Independent Auditors' Report

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**To the Members of the City Council  
City of Covington, Virginia  
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, 2012, 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2012, 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, other supplementary information, 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, other supplementary information, supporting schedules, 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, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section 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, Farmer, Co. Associates*

Blacksburg, Virginia  
December 11, 2012

**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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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, 2012. 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, 2012**

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**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, 2012**

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**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, 2012**

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**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.
  
- 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.

**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

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

**Statement of Net Assets**

The following table reflects the condensed Statement of Net Assets for the year ended June 30, 2012.

**Table 1  
Summary of Net Assets  
As of June 30, 2012 (Exhibit 1 of the Audit)**

	Governmental Activities		Business-Type Activities		Total Primary Gov't		Component Unit (School Board)	
	2012	2011	2012	2011	2012	2011	2012	2011
<b>Assets</b>								
Current and other assets	\$10,180,945	10,306,540	\$3,482,598	3,136,978	\$13,663,543	13,443,518	\$1,411,413	\$1,407,420
Capital Assets	29,211,684	30,516,892	13,650,178	9,261,353	42,861,862	39,778,245	2,008,942	980,215
<b>Total Assets</b>	<b>\$39,392,629</b>	<b>\$40,823,432</b>	<b>\$17,132,776</b>	<b>\$12,398,331</b>	<b>\$56,525,405</b>	<b>\$53,221,763</b>	<b>\$3,420,355</b>	<b>\$2,387,635</b>
<b>Liabilities</b>								
Current and other Liabilities	\$3,155,097	3,220,897	\$296,553	892,673	\$3,451,650	4,113,570	\$1,086,675	1,072,602
Long-Term Liabilities	35,198,385	35,621,363	6,229,553	2,198,744	41,427,938	37,820,107	593,902	581,427
<b>Total Liabilities</b>	<b>\$38,353,482</b>	<b>\$38,842,260</b>	<b>\$6,526,106</b>	<b>\$3,291,417</b>	<b>\$44,879,588</b>	<b>\$41,933,677</b>	<b>\$1,680,577</b>	<b>\$1,654,029</b>
<b>Net Assets</b>								
Invested in Capital Assets net of debt	\$719,242	1,463,576	\$7,559,648	7,196,083	\$8,278,890	8,659,659	\$2,008,942	980,215
Restricted net Assets	328,254	620,402	0	0	328,254	620,402	0	0
Unrestricted net Assets	<8,349>	<102,806>	3,047,022	2,110,831	3,038,673	2,008,025	<269,164>	<246,609>
<b>Total Net Assets</b>	<b>\$1,039,147</b>	<b>\$1,981,172</b>	<b>\$10,606,670</b>	<b>\$9,306,914</b>	<b>\$11,645,817</b>	<b>\$11,288,086</b>	<b>\$1,739,778</b>	<b>\$733,606</b>

**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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**Financial Highlights of the Statement of Net Assets**

At the close of the fiscal year ended June 30, 2012, the assets of the City and its component-unit exceeded liabilities by \$13,385,595 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 \$1,363,903. Of this amount for the fiscal year ended June 30, 2012, \$2,769,509 may not be used to meet the government's ongoing obligations to creditors and citizens within each respective activity. For example, the \$269,164 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, 2012 were \$1,039,147 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 \$942,025 in net assets. These amounts are unrestricted.

\*Net assets of the City's Business-Type Activities for the fiscal year ended June 30, 2012 were \$10,606,670 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 \$1,299,756. These amounts are unrestricted.

\*Net assets of the Component Unit (School Board) for the fiscal year ended June 30, 2012 were \$1,739,778 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 \$1,006,172. 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, 2012**

**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, 2012

**Table 2 (Exhibit 2 of the Audit) Statement of Activities as of June 30, 2012**

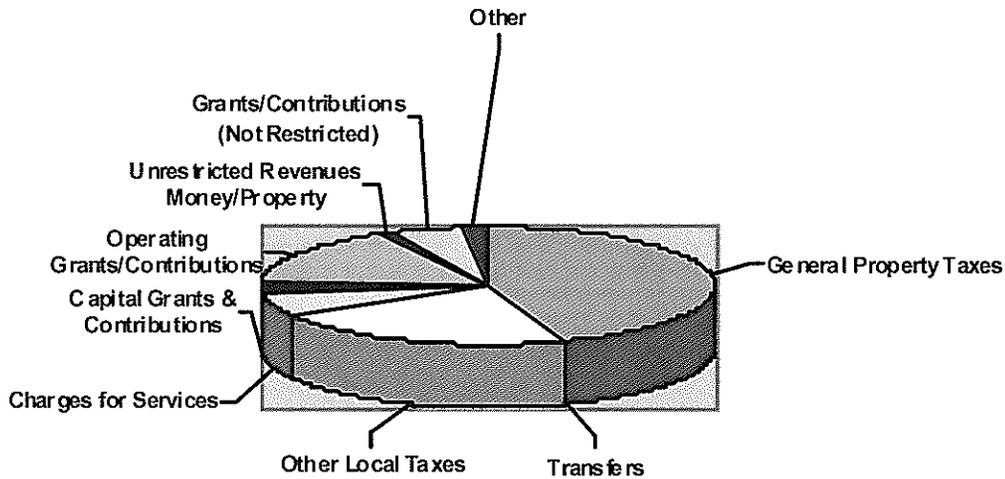
	Governmental Activities		Business-Type Activities		Total Primary Government		Comp Unit (School Board)	
	2012	2011	2012	2011	2012	2011	2012	2011
<b>Revenues</b>								
<b>Program Revenues:</b>								
Charges for Services	\$1,055,352	\$1,046,035	\$3,016,432	\$3,124,344	\$4,071,784	\$4,170,379	\$129,326	\$117,696
Operating Grants/ Cont	2,614,381	3,304,823	0	0	2,614,381	3,304,823	6,001,434	5,797,564
Capital Grants and Cont	494,114	33,330	825,318	651,484	1,319,432	684,814	0	0
<b>General Revenues:</b>								
General Property Taxes	7,225,937	7,184,718	0	0	7,225,937	7,184,718	0	0
Other Local Taxes	3,668,311	3,445,125	0	0	3,668,311	3,445,125	0	0
Other (loss/gain capital assets/transfers)	339,737	336,137	<339,737>	<329,126>	0	7,011	0	0
Unrestricted revenues money/property	49,195	66,865	177	0	49,195	66,865	1,264	1,388
Payments from City of Covington	0	0	0	0	37,544	0	5,273,302	4,030,586
Miscellaneous Grants/Contributions (Not Restricted)	11,204	45,133	37,544	21,681	11,381	66,814	297,512	246,879
	852,781	917,297	0	0	852,781	917,297	0	0
<b>Total Revenues</b>	<b>\$16,311,012</b>	<b>\$16,379,463</b>	<b>\$3,539,734</b>	<b>\$3,468,383</b>	<b>\$19,850,746</b>	<b>\$19,847,846</b>	<b>\$11,702,838</b>	<b>\$10,194,113</b>
<b>Expenses:</b>								
General Gov't Admin	\$1,438,892	\$1,534,458	\$0	\$0	\$1,438,892	\$1,534,458	\$0	\$0
Judicial Administration	123,380	134,998	0	0	123,380	134,998	0	0
Public Safety	3,021,155	2,955,125	0	0	3,021,155	2,955,125	0	0
Public Works	2,700,887	3,425,828	2,239,978	2,207,413	4,940,865	5,633,241	0	0
Health and Welfare	1,758,368	1,765,361	0	0	1,758,368	1,765,361	0	0
Education	5,874,905	4,683,660	0	0	5,874,905	4,683,660	10,696,666	10,180,581
Parks, Recreation & Cultural	1,212,345	1,307,295	0	0	1,212,345	1,307,295	0	0
Community Development	70,625	79,316	0	0	70,625	79,316	0	0
Interest on Long-Term Debt	1,052,480	1,198,756	0	0	1,052,480	1,198,756	0	0
	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>\$17,253,037</b>	<b>\$17,084,797</b>	<b>\$2,239,978</b>	<b>\$2,207,413</b>	<b>\$19,493,015</b>	<b>\$19,292,210</b>	<b>\$10,696,666</b>	<b>\$10,180,581</b>
Change in Net Assets	\$<942,025>	\$<705,334>	\$1,299,756	\$1,260,970	\$357,731	\$555,636	\$1,006,172	\$13,522
Transfers	0	0	0	0	0	0	0	0
Beginning Net Assets	\$1,981,172	\$2,686,506	\$9,306,914	\$8,045,944	\$11,288,086	\$10,732,450	\$733,606	\$720,084
<b>Ending Net Assets</b>	<b>\$1,039,147</b>	<b>\$1,981,172</b>	<b>\$10,606,670</b>	<b>\$9,306,914</b>	<b>\$11,645,817</b>	<b>\$11,288,086</b>	<b>\$1,739,778</b>	<b>\$733,606</b>

**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Governmental Activities**

The City's total revenues from governmental activities were \$16,311,012 fiscal year ended June 30, 2012. The City's largest source of general revenue is property taxes, composed of real estate and personal property taxes, in the amount of \$7,225,937. The next largest source of general revenue is other local taxes, composed of local sales taxes, consumer's utility taxes, business license taxes, consumption taxes, franchise license taxes, motor vehicle licenses, lodging and meals taxes, and recordation taxes. See the chart below.

**Sources of Revenue for Fiscal Year 2012  
Governmental Activities**

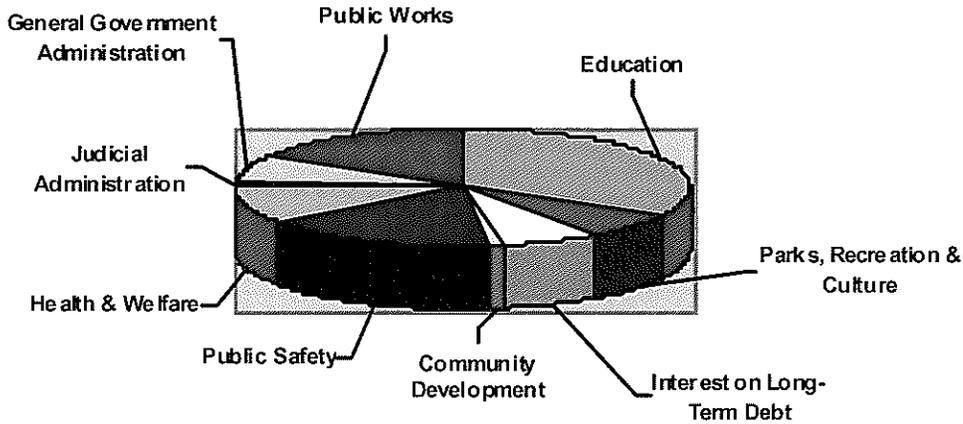


The City's total expenses for governmental activities were \$17,253,037 for the fiscal year ended June 30, 2012. The City's largest area of expense is education in the amount of \$5,874,905. Education continues to be one of the City's highest priorities and commitments as evidenced by the City's contribution. The next two largest areas of expenses are Public Safety in the amount of \$3,021,155 and Public Works in the amount of \$2,700,887. 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 \$<942,025>. See the chart on the following page.

**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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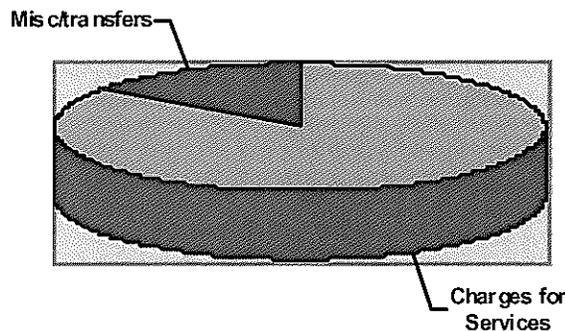
**Expenditures by Category for Fiscal Year  
2012**



**Business-Type Activities**

The City's total revenue from business-type activities was \$3,539,734 for the fiscal year ended June 30, 2012. The City's largest source of revenue is charges for services in the amount of \$3,016,432. There were also capital grants/contributions, transfers and miscellaneous for \$523,302. See chart below.

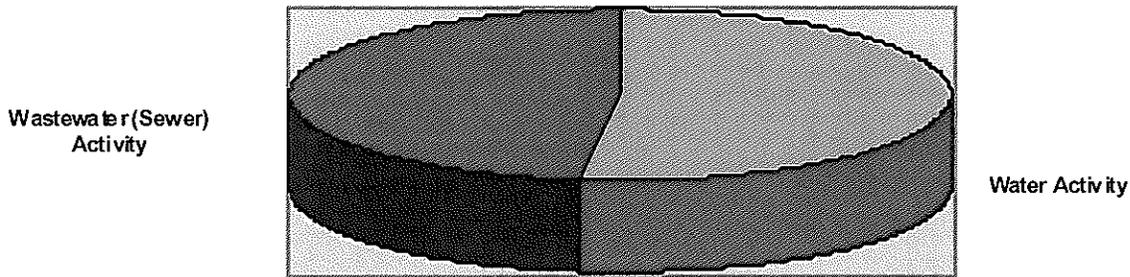
**Sources of Revenue for Fiscal  
Year 2012**



**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

The City's total expenses for business-type activities were \$2,239,978. The largest area of expense is the Water Filtration Plant and Water Distribution in the amount of \$1,173,197. The next area of expense is the Sewer Plant and Sewer Distribution in the amount of \$1,066,781. Net assets in the business-type activities increased \$1,299,756. See chart below.

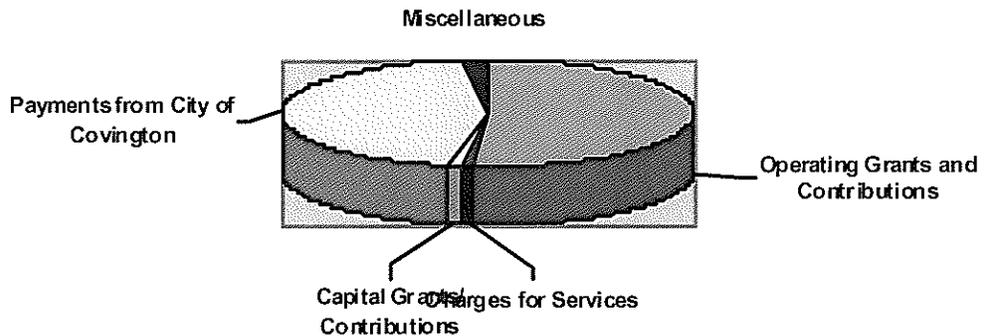
**Expenditures by Category for Fiscal  
Year 2012  
Business-Type Activities**



**Component Unit (School Board)**

The City's total revenue from component unit (School Board) activities was \$11,702,838 for the fiscal year ended June 30, 2012. The City's largest source of revenue is operating grants and contributions in the amount of \$6,001,434. See chart below.

**Sources of Revenue for Fiscal Year  
2012  
Component Unit (School Board)**

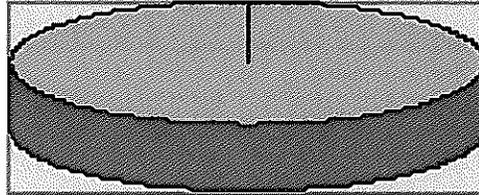


**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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The City's total expenses for component unit (School Board) were \$10,696,666. Net assets in the component unit (School Board) increased by \$1,006,172. See chart below.

**Expenditures by Category for Fiscal Year  
2012  
Component Unit (School Board)**



Education

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**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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**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, 2012**

**Table 3 Activities – Program Revenues vs. Reliance on General Revenues to Fund Expenditures as of June 30, 2012 (Exhibit 2 of the Audit)**

Activities	Program Revenues		Reliance on General Revenues		Total Revenues	
	2012	2011	2012	2011	2012	2011
<b>Governmental Activities:</b>						
General Administration	\$173,826	\$162,517	\$1,265,066	\$1,371,941	\$1,438,892	\$1,534,458
Judicial Administration	0	0	123,380	134,998	123,380	134,998
Public Safety	561,935	1,213,222	2,459,220	1,741,903	3,021,155	2,955,125
Public Works	1,752,140	1,732,669	948,747	1,693,159	2,700,887	3,425,828
Health & Welfare	1,098,229	1,151,637	660,139	613,724	1,758,368	1,765,361
Education	0	0	5,874,905	4,683,660	5,874,905	4,683,660
Parks, Recreation & Cultural	576,864	89,663	635,481	1,217,632	1,212,345	1,307,295
Community Development	853	34,480	69,772	44,836	70,625	79,316
Interest on Long-Term Debt	0	0	1,052,480	1,198,756	1,052,480	1,198,756
<b>Total Governmental Activities</b>	<b>\$4,163,847</b>	<b>\$4,384,188</b>	<b>\$13,089,190</b>	<b>\$12,700,609</b>	<b>\$17,253,037</b>	<b>\$17,084,797</b>
<b>Business-Type Activities</b>						
Water	\$1,577,440	\$1,605,924	\$<404,243>	\$<392,820>	\$1,173,197	\$1,213,104
Wastewater (Sewer)	2,264,310	2,169,904	<1,197,529>	<1,175,595>	1,066,781	994,309
<b>Total Business-Type Activities</b>	<b>\$3,841,750</b>	<b>\$3,775,828</b>	<b>\$&lt;1,601,772&gt;</b>	<b>\$&lt;1,568,415&gt;</b>	<b>\$2,239,978</b>	<b>\$2,207,413</b>
<b>Total Primary Government</b>	<b>\$8,005,597</b>	<b>\$8,160,016</b>	<b>\$11,487,418</b>	<b>\$11,132,194</b>	<b>\$19,493,015</b>	<b>\$19,292,210</b>
<b>Component Unit (School Board):</b>						
Education	\$6,130,760	\$5,915,250	\$4,565,906	\$4,265,331	\$10,696,666	\$10,180,581
<b>Total Component Unit</b>	<b>\$6,130,760</b>	<b>\$5,915,250</b>	<b>\$4,565,906</b>	<b>\$4,265,331</b>	<b>\$10,696,666</b>	<b>\$10,180,581</b>
<b>Totals</b>	<b>\$14,136,357</b>	<b>\$14,075,266</b>	<b>\$16,053,324</b>	<b>\$15,397,525</b>	<b>\$30,189,681</b>	<b>\$29,472,791</b>

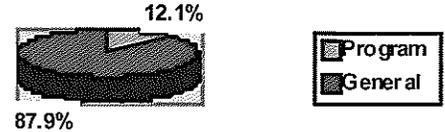
**Expenditures:**

Government Activities	Business-Type Activities	Primary Government	Component Unit	Total
\$17,253,037	\$2,239,978	\$19,493,015	\$10,696,666	\$30,189,681

**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

General Government Administration is 12.1% supported by Program Revenues and 87.9% 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**



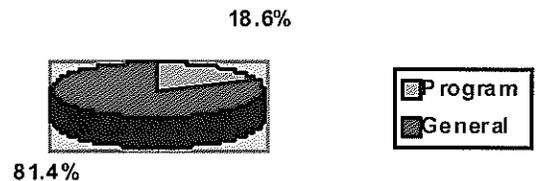
**GOV'T ACTIVITIES BY  
REVENUE SOURCE  
JUDICIAL ADMINISTRATION**



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 18.6% supported by Program Revenues and 81.4% 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**



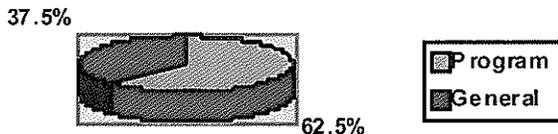
**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

Public Works is 64.9% supported by Program Revenues and 35.1% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia and fees from landfill charges and waste collection and disposal charges. This category includes engineering, streets, street lights, snow and ice removal, traffic engineering, street cleaning, refuse collection, refuse disposal, recycling, buildings and grounds, and motor vehicular maintenance.

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



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



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

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

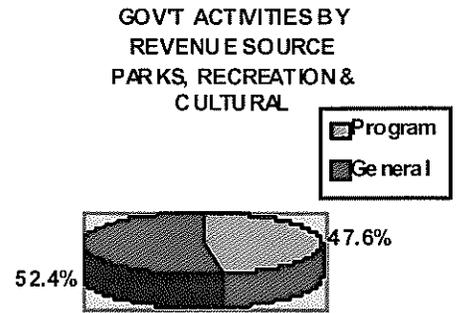
Education is 0.0% supported by Program Revenues and 100.0 % supported by General Revenues. On the Statement of Activities (Exhibit 2 of the Audit) local education is separated from the School Board activities. This chart represents local funds and operating grants and contributions used to support City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



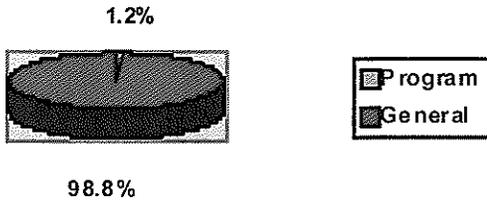
**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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Parks, Recreation, and Cultural Activities are 47.6% supported by Program Revenues and 52.4% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia for support of the Alleghany Highlands Arts & Crafts Center and Alleghany Highlands Arts Council. This category includes parks and recreation, senior citizens center, cemetery, League of Older Americans, Alleghany Highlands Arts Council, Alleghany Highlands Arts & Crafts Center, Virginia Museum of Transportation, and Regional Library.



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



Community Development is 1.2% supported by Program Revenues and 98.8% supported by General Revenues. Program Revenue is mostly received by capital grants. This category includes planning commission, redevelopment/housing authority, zoning board, economic development, employment/training consortium, DSL Community College, Mountain Soil/Water Conservation District, and Virginia Cooperative Services.

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

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



**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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 57.3% supported by Program Revenues and 42.7% supported by General Revenues. Program Revenue is mostly received from the Commonwealth of Virginia, federal programs, and grants.

**COMPONENT UNIT ACTIVITIES  
BY REVENUE SOURCE  
EDUCATION**



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

**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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**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 2012 was in the amount of \$3,081,403 and at the end of FY 2011 was in the amount of \$3,543,131, which represents a decrease in the amount of \$<461,728>. Property taxes generated the majority of General Fund Revenues, which totaled \$7,227,463 in FY 2012 and totaled \$7,149,152 in FY 2011, which represents an increase of \$78,311. At the end of FY 2012, total revenues in the General Fund were \$16,000,168 and at the end of FY 2011 were \$16,020,796, which represents a decrease of \$<20,628>. At the end of FY 2012 total expenditures in the General Fund were \$16,313,788 and at the end of FY 2011 were \$15,309,707, which represents an increase of \$1,004,081. This resulted at the end of FY 2012 excess expenditures over revenues in the amount of \$<313,620> and at the end of FY 2011 excess revenue over expenditures in the amount of \$711,089. At the end of FY 2012 excess expenditures over revenues plus other financing sources (uses) resulted in a net change in fund balance in the amount of \$<461,728> 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 2012, this amount \$<461,728> plus the beginning fund balance in the amount of \$3,543,131 resulted in an ending fund balance in the amount of \$3,081,403 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, 2012**

**SUMMARY OF FUND FINANCIAL STATEMENTS**

**Changes in Fund Balances**

**Condensed Information – Governmental Funds**

**(Exhibit 5 of the Audit)**

	<b>General 2012</b>	<b>General 2011</b>
Total Revenues	\$16,000,168	\$16,020,796
Total Expenditures	16,313,788	15,309,707
Excess (deficiency) of Revenues over (under) Expenditures	\$<313,620>	\$711,089
Other Financing Sources (Uses)	\$<148,108>	\$<27,077>
Net Change in Fund Balance	\$<461,728>	\$684,012
Fund Balance – Beginning	3,543,131	2,859,119
Fund Balance – Ending	\$3,081,403	\$3,543,131

**Reconciliation of Governmental Funds to Statement of Net Assets**

**(Exhibit 4 of the Audit)**

	2012	2011
Total Fund Balances per Exhibit 3 – Governmental Funds	\$6,662,623	\$6,661,426
Capital Assets used in governmental activities are not financial , resources and therefore, are not reported in the funds	29,211,684	30,516,892
Other long-term assets are not available to pay for current-period expenditures, and therefore, are deferred in the funds	319,204	320,730
Assets and liabilities of internal service funds	<2,608>	
Certain items reported as expenditures in the fund statement are deferred and shown as assets on the statement of net assets	426,889	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	<35,578,645>	<36,012,028>
Net Assets of governmental activities	\$1,039,147	\$1,981,172

**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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**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 2012 had net operating revenues in the amount of \$1,583,080 total operating expenses in the amount of \$<1,155,292> and non-operating revenues expenses in the amount of \$<14,284> and transfers out in the amount of \$<289,989>, which resulted in a change of net assets in the amount of \$123,515. 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 2012 had operating revenues in the amount of \$1,449,174, total operating expenses in the amount of \$<1,039,549>, and non-operating revenues expenses in the amount of \$<5,258>, transfers (out) in the amount of \$<195,248>, transfers (in) in the amount of \$145,500, and capital contributions/construction grants in the amount of \$ 821,622, which resulted in a change of net assets in the amount of \$1,176,241. 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 2012 had operating revenues in the amount of \$161,589, total operating expenses in the amount of \$<210,841>, and non-operating revenues expenses in the amount of \$0, transfers (out) in the amount of \$<0>, and transfers (in) in the amount of \$46,644, which resulted in a change of net assets in the amount of \$<2,608> 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, 2012**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

	Original Budget	Amended Budget	Actual
<b>Revenues:</b>			
Taxes	10,733,739	10,733,739	10,895,774
Intergovernmental	3,849,548	4,957,749	3,961,276
Other	1,057,177	1,057,177	1,143,118
Bond/Capital Leases Proceeds, etc.	0	0	0
Transfers	337,355	337,355	339,737
<b>Total Revenues/Other Financing Sources</b>	<b>15,977,819</b>	<b>17,086,020</b>	<b>16,339,905</b>
<b>Expenditures and Transfers:</b>			
Expenditures	16,177,569	18,429,341	16,313,788
Transfers	0	300,000	487,845
<b>Total Expenditures and Transfers</b>	<b>16,177,569</b>	<b>18,729,341</b>	<b>16,801,633</b>
<b>Change in Fund Balance</b>	<b>&lt;199,750&gt;</b>	<b>&lt;1,643,321&gt;</b>	<b>&lt;461,728&gt;</b>

During the fiscal year 2012, City Council amended the budget. These budget amendments or supplemental appropriation ordinances were primarily for the following purposes:

- Appropriation for Unspent Funds to Schools Previous FY
- Appropriation for Police Department, Fire Department, Ambulance/Rescue Services-Line of Duty Act Insurance
- Appropriation for Street Department for Sidewalk Improvements
- Appropriation for Ambulance/Rescue Services for CPR Certification Materials
- Appropriation for Legal Services for Consolidation Expenses
- Appropriation for City's share of Comprehensive Service Act Foster Care
- Appropriation for Parks and Recreation for Capital Improvements (Driving Range/Batting Cage)
- Appropriation for City Council-Purchase of Land/Buildings
- Appropriation for additional Funding Electoral Board

**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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• **CAPITAL ASSETS AND LONG TERM DEBT**

The City of Covington had an investment in capital assets (net of accumulated depreciation) as of June 30, 2012 for the Governmental Activities in the amount of \$29,211,684 and as of June 30, 2011 in the amount of \$30,516,892, which represents a decrease in the amount of \$<1,305,208>. The City of Covington had an investment in the capital assets (net of accumulated depreciation as of June 30, 2012 for Business-Type Activities (Water and Wastewater (Sewer) in the amount of \$13,650,178 and as of June 30, 2011 in the amount of \$9,261,353, which represents an increase in the amount of \$4,388,825. The City of Covington had an investment in capital assets (net of accumulated depreciation) as of June 30, 2012 for the Component Unit (School Board) in the amount of \$2,008,942 and as of June 30, 2011 in the amount of \$980,215, which represents an increase in the amount of \$1,028,727 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 \$35,198,385 as of June 30, 2012. This amount is \$422,978 less than the balance on July 1, 2011. This \$422,978 decrease was due to the following factors: (1) Issuance of Landfill Closure/Post Closure Liability in the amount of \$117,971. (2) Issuance of Compensated Absences in the amount of \$286,750. (3) Issuance of Net OPEB Obligation in the amount of \$47,467. (4) Issuances of General Obligation Bonds in the amount of \$15,279,100. (5) Issuances of Deferred Amount on Refunding in the amount of \$<42,817>. (6) Retirement of General Obligation Bonds in the amount of \$<319,522>. (7) Retirement of Deferred Amount on Refunding in the amount of \$27,659. (8) Retirement of Literary Loans in the amount of \$<72,500 >. (9) Premium on Bond in the amount of \$<298,575>. (10) Retirement of Lease Revenue Bond in the amount of \$<50,000>. (11) Retirement of Discount on Bond in the amount of \$5,840. (12) Retirement of Capital Leases in the amount of \$<90,001>. (13) Retirement of Landfill Closure/Post Closure Liability in the amount of \$.00. (14) Retirement of Compensated Absences in the amount of \$<295,217>. (15) Retirement of Net OPEB Obligation in the amount of \$<19,133>. (16) Retirement of Bond Anticipation Notes in the amount of \$<15,000,000>.

The business-type activities-Water and Wastewater (Sewer) long-term debt has a balance of \$6,229,553 as of June 30, 2012 (See Note 7). This amount is \$4,030,809 more than the balance on July 1, 2011. This \$4,030,809 increase was due to the following factors: (1) Issuance of Revenue Bonds in the amount of \$4,341,448. (2) Issuance of net OPEB Obligation in the amount of \$10,833. (3) Issuance of Compensated Absences in the amount of \$0. (4) Retirement of Revenue Bonds-Water and Wastewater (Sewer) in the amount of \$<325,018>. (5) Retirement of deferred amount on refunding in the amount of \$8,830. (6) Retirement of Net OPEB Obligation in the amount of \$<4,367>. (7) Retirement of Compensated Absences in the amount of \$<917>.

The component unit activities (School Board) long-term debt has a balance of \$593,902 as of June 30, 2012 (See Note 9). This amount is \$12,475 more than the balance on July 1, 2010. This \$12,475 increase was due to the following factor: (1) Issuance of Compensated Absences in the amount of \$1,175. (2) Issuance of Net OPEB Obligations in the amount of \$75,000. (3) Retirement of Net OPEB Obligation in the amount of \$<63,700>.

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**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

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)	
	2012	2011	2012	2011	2012	2011
Non-Depreciable Assets:						
Land	\$1,955,871	\$1,654,067	0	0	\$89,663	\$89,663
Construction in Progress	321,723	112,100	6,721,179	2,084,029	0	0
Other Capital Assets:						
Building and Systems	29,976,925	32,196,391	0	0	3,188,460	968,994
Infrastructure	1,029,812	511,401	0	0	0	0
Water and Wastewater (Sewer Plant) Systems	0	0	16,113,895	16,032,575	0	0
Machinery and Equipment	6,606,456	6,491,481	0	0	974,450	952,741
Accumulated Depreciation	<10,679,103>	<10,448,548>	<9,184,896>	<8,855,251>	<2,243,631>	<1,031,183>
<b>Totals</b>	<b>\$29,211,684</b>	<b>\$30,516,892</b>	<b>\$13,650,178</b>	<b>\$9,261,353</b>	<b>\$2,008,942</b>	<b>\$980,215</b>

**CITY OF COVINGTON, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

Governmental Activities Debt								
	Balance July 1		Issuances		Retirements		Balance June 30	
	2012	2011	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$3,276,008	\$3,581,739	\$15,279,100	\$0	\$<319,522>	\$<305,731>	18,235,586	\$3,276,008
Deferred Amt on refunding	<70,459>	<120,481>	<42,817>	0	27,659	50,022	<85,617>	<70,459>
Literary Loans	72,500	145,000	0	0	<72,500>	<72,500>	0	72,500
Promissory Note	0	0	0	0	0	0	0	0
Bond Anticipation Note	15,000,000	15,000,000	0	0	<15,000,000>	0	0	15,000,000
Premium on Bond	298,575	455,119	0	0	<298,575>	<156,544>	0	298,575
Lease Revenue Bond	11,390,000	11,440,000	0	0	<50,000>	<50,000>	11,340,000	11,390,000
Discount on Bond	<250,754>	<256,598>	0	0	5,840	5,844	<244,914>	<250,754>
Capital Leases (Note 8)	349,831	473,140	0	0	<90,001>	<123,309>	259,830	349,831
Landfill closure/postclosure Liability	4,915,448	4,314,061	117,971	601,387	0	0	5,033,419	4,915,448
Compensated Absences	393,622	362,110	286,750	303,095	<295,217>	<271,583>	385,155	393,622
Net opeb obligation	246,592	177,816	47,467	68,776	<19,133>	0	274,926	246,592
Total	\$35,621,363	\$35,571,906	\$15,688,471	\$973,258	\$<16,111,449>	\$<923,801>	\$35,198,385	\$35,621,363

Business-Type Activities Debt – Water and Wastewater (Sewer)										
	Balance July 1		Adj.		Issuances		Retirements		Balance June 30	
	2012	2011	\$	\$	2012	2011	2012	2011	2012	2011
Revenue Bonds	\$2,091,761	\$1,330,760	0	0	\$4,341,448	\$1,077,115	\$<325,018>	\$<316,114>	\$6,108,191	\$2,091,761
Deferred amt on Refunding	<26,491>	<35,319>	0	0	0	0	8,830	8,828	<17,661>	<26,491>
Net opeb obligation	53,508	38,584	0	0	10,833	14,924	<4,367>	0	59,974	53,508
Compensated Absences	79,966	77,922	0	0	0	2,044	<917>	0	79,049	79,966
Total	\$2,198,744	\$1,411,947	0	0	\$4,352,281	\$1,094,083	\$<321,472>	\$<307,286>	\$6,229,553	\$2,198,744

Component Unit Activities (School Board)										
	Balance July 1		Adjustments		Issuances		Retirements		Balance June 30	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Compensated Absences	\$404,027	\$388,813	\$0	\$0	\$1,175	\$15,214	\$0	\$0	\$405,202	404,027
Net opeb obligation	177,400	151,700	0	0	75,000	25,700	<63,700>	0	188,700	177,400
Total	\$581,427	\$540,513	\$0	\$0	\$76,175	\$40,914	\$<63,700>	\$0	\$593,902	\$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, 2012**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

All of the following factors were considered in preparing the City of Covington's Budget for FY 12-13:

- The unemployment rate for the City of Covington in June 2012 was 9.8%.
- The development of the FY 2013 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 2012-2013 budget:
  - All funding for City Departments in the FY 2012-2013 Budget were level funded or received a minimal 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.
  - Travel funds were cut for staff to attend only required meetings for certification and education.
  - Most agencies contributions were reduced, level funded, or eliminated.
  - The City Council made a commitment to reappropriate in FY2012-2013 any unspent funds returned to the City on 6/30/12 by the School Board.
  - Reduction of State Aid to Local Governments by the Commonwealth has resulted in additional budget cuts.
  - Virginia Retirement System received new legislation that required each member of VRS to contribute 5% of their creditable compensation beginning July 1, 2012. New legislation required that each member receive a 5% salary increase from the City, to offset the required 5% contribution that each member must pay beginning July 1, 2012.
- The following rate was increased in the FY 2012-2013 Budget in order to balance the budget:
  - The sewer rates were increased by 3.33% in order to finance debt service payment for Wastewater Improvement Project-Phase I.

**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, 2012

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit School Board
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,617,350	\$ 2,866,804	\$ 7,484,154	\$ 829,838
Cash in custody of others	-	-	-	112,213
Investments	37,691	-	37,691	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,900,725	-	2,900,725	-
Other local taxes receivable	114,358	-	114,358	-
Accounts receivable	70,238	418,242	488,480	61,250
Due from component unit	256,569	-	256,569	-
Due from other governmental units	744,682	76,833	821,515	283,299
Inventories	-	-	-	7,448
Prepaid expenses	-	-	-	117,365
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	1,012,443	54,474	1,066,917	-
Other assets:				
Unamortized bond issue costs	426,889	66,245	493,134	-
Capital assets (net of accumulated depreciation):				
Land	1,955,871	-	1,955,871	89,663
Buildings	24,243,615	-	24,243,615	1,651,401
Machinery and equipment	1,955,912	-	1,955,912	267,878
Infrastructure	734,563	6,928,999	7,663,562	-
Construction in progress	321,723	6,721,179	7,042,902	-
Total assets	<u>\$ 39,392,629</u>	<u>\$ 17,132,776</u>	<u>\$ 56,525,405</u>	<u>\$ 3,420,355</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 115,091	\$ 223,303	\$ 338,394	\$ 13,712
Accrued liabilities	64,689	13,225	77,914	816,394
Customers' deposits	-	54,474	54,474	-
Accrued interest payable	380,260	5,551	385,811	-
Due to primary government	-	-	-	256,569
Unearned revenue	2,583,986	-	2,583,986	-
Deposits held in escrow	11,071	-	11,071	-
Long-term liabilities:				
Due within one year	439,655	600,519	1,040,174	-
Due in more than one year	34,758,730	5,629,034	40,387,764	593,902
Total liabilities	<u>\$ 38,353,482</u>	<u>\$ 6,526,106</u>	<u>\$ 44,879,588</u>	<u>\$ 1,680,577</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 719,242	\$ 7,559,648	\$ 8,278,890	\$ 2,008,942
Restricted for:				
Information technology grants	320,255	-	320,255	-
Transportation enhancement grants	7,999	-	7,999	-
Unrestricted (deficit)	(8,349)	3,047,022	3,038,673	(269,164)
Total net assets	<u>\$ 1,039,147</u>	<u>\$ 10,606,670</u>	<u>\$ 11,645,817</u>	<u>\$ 1,739,778</u>

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, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	School Board	
<b>PRIMARY GOVERNMENT:</b>									
Governmental activities:									
General government administration	\$ 1,438,892	\$ 384	\$ 173,442	\$ -	\$ (1,265,066)	\$ -	\$ (1,265,066)		
Judicial administration	123,380	-	-	-	(123,380)	-	(123,380)		
Public safety	3,021,155	141,436	420,499	-	(2,459,220)	-	(2,459,220)		
Public works	2,700,887	829,929	922,211	-	(948,747)	-	(948,747)		
Health and welfare	1,756,368	-	1,098,229	-	(660,139)	-	(660,139)		
Education	5,874,905	-	-	-	(5,874,905)	-	(5,874,905)		
Parks, recreation, and cultural	1,212,345	82,750	-	494,114	(635,481)	-	(635,481)		
Community development	70,625	853	-	-	(69,772)	-	(69,772)		
Interest on long-term debt	1,052,480	-	-	-	(1,052,480)	-	(1,052,480)		
Total governmental activities	\$ 17,253,037	\$ 1,055,352	\$ 2,614,381	\$ 494,114	\$ (13,089,190)	\$ -	\$ (13,089,190)		
Business-type activities:									
Water	\$ 1,173,197	\$ 1,573,819	\$ -	\$ 3,621	\$ -	\$ 404,243	\$ 404,243		
Sewer	1,066,781	1,442,613	-	821,697	-	1,197,529	1,197,529		
Total business-type activities	\$ 2,239,978	\$ 3,016,432	\$ -	\$ 825,318	\$ -	\$ 1,601,772	\$ 1,601,772		
Total primary government	\$ 19,493,015	\$ 4,071,784	\$ 2,614,381	\$ 1,319,432	\$ (13,089,190)	\$ 1,601,772	\$ (11,487,418)		
<b>COMPONENT UNIT:</b>									
School Board	\$ 10,696,666	\$ 129,326	\$ 6,001,434	\$ -	\$ -	\$ -	\$ (4,565,906)		
General revenues:									
General property taxes					\$ 7,225,937	\$ -	\$ 7,225,937		
Other local taxes:									
Local sales and use taxes					1,271,885	-	1,271,885		
Consumers' utility taxes					411,332	-	411,332		
Consumption taxes					24,610	-	24,610		
Business license taxes					543,943	-	543,943		
Franchise license taxes					1,500	-	1,500		
Motor vehicle licenses					177,030	-	177,030		
Bank stock taxes					139,095	-	139,095		
Recordation taxes					23,519	-	23,519		
Hotel and motel room taxes					16,469	-	16,469		
Restaurant food taxes					931,681	-	931,681		
Tobacco taxes					127,247	-	127,247		
Unrestricted revenues from use of money and property					49,195	177	49,372	1,264	
Miscellaneous					11,204	37,544	48,748	297,512	
Payments from the City of Covington					-	-	-	5,273,302	
Grants and contributions not restricted to specific programs					852,781	-	852,781	-	
Transfers					339,737	(339,737)	-	-	
Total general revenues and transfers					\$ 12,147,165	\$ (302,016)	\$ 11,845,149	\$ 5,572,078	
Change in net assets					\$ (942,025)	\$ 1,299,756	\$ 357,731	\$ 1,006,172	
Net assets - beginning					1,981,172	9,306,914	11,288,086	733,606	
Net assets - ending					\$ 1,039,147	\$ 10,606,670	\$ 11,645,817	\$ 1,739,778	

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

City of Covington, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2012

	<u>General</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,048,573	\$ 2,568,777	\$ -	\$ 4,617,350
Investments	37,691	-	-	37,691
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,900,725	-	-	2,900,725
Other local taxes receivables	114,358	-	-	114,358
Accounts receivable	70,238	-	-	70,238
Due from component unit	256,569	-	-	256,569
Due from other governmental units	744,682	-	-	744,682
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	-	-	1,012,443	1,012,443
Total assets	<u>\$ 6,172,836</u>	<u>\$ 2,568,777</u>	<u>\$ 1,012,443</u>	<u>\$ 9,754,056</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 115,087	\$ -	\$ -	\$ 115,087
Accrued liabilities	62,085	-	-	62,085
Deferred revenue	2,903,190	-	-	2,903,190
Deposits held in escrow	11,071	-	-	11,071
Total liabilities	<u>\$ 3,091,433</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,091,433</u>
Fund balances:				
Restricted:				
School construction	\$ -	\$ -	\$ 1,012,443	\$ 1,012,443
Transportation enhancement grants	7,999	-	-	7,999
Information technology grants	320,255	-	-	320,255
Committed:				
Debt service funds	-	2,568,777	-	2,568,777
Unassigned:				
Total fund balances	<u>\$ 3,081,403</u>	<u>\$ 2,568,777</u>	<u>\$ 1,012,443</u>	<u>\$ 6,662,623</u>
Total liabilities and fund balances	<u>\$ 6,172,836</u>	<u>\$ 2,568,777</u>	<u>\$ 1,012,443</u>	<u>\$ 9,754,056</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, 2012

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 6,662,623
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,211,684
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	319,204
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(2,608)
Certain items reported as expenditures in the fund statements are deferred and shown as assets on the statement of net assets.	426,889
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(35,578,645)
Net assets of governmental activities	<u>\$ 1,039,147</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, 2012

	General	School Debt Service Reserve	School Construction	Total
<b>REVENUES</b>				
General property taxes	\$ 7,227,463	\$ -	\$ -	\$ 7,227,463
Other local taxes	3,668,311	-	-	3,668,311
Permits, privilege fees, and regulatory licenses	30,126	-	-	30,126
Fines and forfeitures	12,163	-	-	12,163
Revenue from the use of money and property	27,471	21,666	58	49,195
Charges for services	1,013,063	-	-	1,013,063
Miscellaneous	11,204	-	-	11,204
Recovered costs	49,091	-	-	49,091
Intergovernmental revenues:				
Commonwealth	3,264,295	-	-	3,264,295
Federal	696,981	-	-	696,981
Total revenues	<u>\$ 16,000,168</u>	<u>\$ 21,666</u>	<u>\$ 58</u>	<u>\$ 16,021,892</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,679,198	\$ -	\$ -	\$ 1,679,198
Judicial administration	123,380	-	-	123,380
Public safety	3,008,874	-	-	3,008,874
Public works	2,269,664	-	-	2,269,664
Health and welfare	1,781,741	-	-	1,781,741
Education	4,132,689	-	-	4,132,689
Parks, recreation, and cultural	1,691,179	-	-	1,691,179
Community development	70,625	-	-	70,625
Debt service:				
Principal retirement	532,023	-	-	532,023
Interest and other fiscal charges	1,024,415	-	-	1,024,415
Bond issuance costs	-	-	110,350	110,350
Total expenditures	<u>\$ 16,313,788</u>	<u>\$ -</u>	<u>\$ 110,350</u>	<u>\$ 16,424,138</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (313,620)</u>	<u>\$ 21,666</u>	<u>\$ (110,292)</u>	<u>\$ (402,246)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 339,737	\$ 441,201	\$ -	\$ 780,938
Transfers out	(487,845)	-	-	(487,845)
Issuance of general obligation refunding bonds	-	-	15,279,100	15,279,100
Payment to refunded bond escrow agent	-	-	(15,168,750)	(15,168,750)
Total other financing sources (uses)	<u>\$ (148,108)</u>	<u>\$ 441,201</u>	<u>\$ 110,350</u>	<u>\$ 403,443</u>
Net change in fund balances	\$ (461,728)	\$ 462,867	\$ 58	\$ 1,197
Fund balances - beginning	3,543,131	2,105,910	1,012,385	6,661,426
Fund balances - ending	<u>\$ 3,081,403</u>	<u>\$ 2,568,777</u>	<u>\$ 1,012,443</u>	<u>\$ 6,662,623</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, 2012

---

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

Net change in fund balances - total governmental funds	\$ 1,197
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.	(1,305,208)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,526)
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.	414,052
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.	(47,932)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	(2,608)
Change in net assets of governmental activities	<u>\$ (942,025)</u>

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, 2012

	Enterprise Funds			Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,570,921	\$ 1,295,883	\$ 2,866,804	\$ -
Accounts receivable, net of allowance for uncollectibles	249,007	169,235	418,242	-
Due from other governmental units	-	76,833	76,833	-
Total current assets	<u>\$ 1,819,928</u>	<u>\$ 1,541,951</u>	<u>\$ 3,361,879</u>	<u>\$ -</u>
Noncurrent assets:				
Restricted current assets:				
Cash and cash equivalents	\$ 29,118	\$ 25,356	\$ 54,474	\$ -
Other assets:				
Unamortized bond issue costs	\$ 8,869	\$ 57,376	\$ 66,245	\$ -
Capital assets:				
Utility plant in service	\$ 8,181,826	\$ 7,932,069	\$ 16,113,895	\$ -
Less: accumulated depreciation	(4,908,185)	(4,276,711)	(9,184,896)	-
Construction in progress	-	6,721,179	6,721,179	-
Total capital assets	<u>\$ 3,273,641</u>	<u>\$ 10,376,537</u>	<u>\$ 13,650,178</u>	<u>\$ -</u>
Total noncurrent assets	<u>\$ 3,311,628</u>	<u>\$ 10,459,269</u>	<u>\$ 13,770,897</u>	<u>\$ -</u>
Total assets	<u>\$ 5,131,556</u>	<u>\$ 12,001,220</u>	<u>\$ 17,132,776</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 124	\$ 223,179	\$ 223,303	\$ 4
Wages payable	7,312	5,913	13,225	2,604
Customers' deposits	29,118	25,356	54,474	-
Accrued interest payable	2,223	3,328	5,551	-
Bonds payable - current portion	135,504	465,015	600,519	-
Total current liabilities	<u>\$ 174,281</u>	<u>\$ 722,791</u>	<u>\$ 897,072</u>	<u>\$ 2,608</u>
Noncurrent liabilities:				
Bonds payable - net of current portion	\$ 133,559	\$ 5,356,452	\$ 5,490,011	\$ -
Net OPEB obligation	33,098	26,876	59,974	-
Compensated absences	53,108	25,941	79,049	-
Total noncurrent liabilities	<u>\$ 219,765</u>	<u>\$ 5,409,269</u>	<u>\$ 5,629,034</u>	<u>\$ -</u>
Total liabilities	<u>\$ 394,046</u>	<u>\$ 6,132,060</u>	<u>\$ 6,526,106</u>	<u>\$ 2,608</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 3,004,578	\$ 4,555,070	\$ 7,559,648	-
Unrestricted	1,732,932	1,314,090	3,047,022	-
Total net assets	<u>\$ 4,737,510</u>	<u>\$ 5,869,160</u>	<u>\$ 10,606,670</u>	<u>\$ (2,608)</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, 2012

	Enterprise Funds		Total	Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund		
<b>OPERATING REVENUES</b>				
Charges for services:				
Water revenues	\$ 1,560,886	\$ -	\$ 1,560,886	\$ -
Sewer revenues	-	1,425,212	1,425,212	-
Vehicle maintenance	-	-	-	161,589
Penalties	12,933	17,401	30,334	-
Miscellaneous	9,261	6,561	15,822	-
Total operating revenues	<u>\$ 1,583,080</u>	<u>\$ 1,449,174</u>	<u>\$ 3,032,254</u>	<u>\$ 161,589</u>
<b>OPERATING EXPENSES</b>				
Salaries and wages	\$ 396,496	\$ 333,423	\$ 729,919	\$ 127,926
Fringes	204,282	181,473	385,755	64,620
Contracted services	46,161	169,173	215,334	987
Other:				
Electric and heating	136,043	77,077	213,120	-
Postal and telecommunications	11,869	9,047	20,916	-
Insurance	22,973	21,640	44,613	-
Supplies	158,837	62,343	221,180	-
Travel	1,105	1,623	2,728	-
Miscellaneous	12,980	7,219	20,199	17,308
Purchase of equipment	4,002	-	4,002	-
Lease/rent of equipment	660	304	964	-
OPEB expense	3,508	2,958	6,466	-
Depreciation	156,376	173,269	329,645	-
Total operating expenses	<u>\$ 1,155,292</u>	<u>\$ 1,039,549</u>	<u>\$ 2,194,841</u>	<u>\$ 210,841</u>
Operating income (loss)	<u>\$ 427,788</u>	<u>\$ 409,625</u>	<u>\$ 837,413</u>	<u>\$ (49,252)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Connection fees	\$ 3,621	\$ 75	\$ 3,696	\$ -
Proceeds from sale of asset	-	21,722	21,722	-
Interest income	-	177	177	-
Interest expense	(17,905)	(27,232)	(45,137)	-
Total nonoperating revenues (expenses)	<u>\$ (14,284)</u>	<u>\$ (5,258)</u>	<u>\$ (19,542)</u>	<u>\$ -</u>
Income (loss) before contributions and transfers	<u>\$ 413,504</u>	<u>\$ 404,367</u>	<u>\$ 817,871</u>	<u>\$ (49,252)</u>
Capital contributions and construction grants	\$ -	\$ 821,622	\$ 821,622	\$ -
Transfers in	-	145,500	145,500	46,644
Transfers out	(289,989)	(195,248)	(485,237)	-
Change in net assets	<u>\$ 123,515</u>	<u>\$ 1,176,241</u>	<u>\$ 1,299,756</u>	<u>\$ (2,608)</u>
Total net assets - beginning	<u>\$ 4,613,995</u>	<u>\$ 4,692,919</u>	<u>\$ 9,306,914</u>	<u>\$ -</u>
Total net assets - ending	<u>\$ 4,737,510</u>	<u>\$ 5,869,160</u>	<u>\$ 10,606,670</u>	<u>\$ (2,608)</u>

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, 2012

	Enterprise Funds		Total	Motor Vehicle Internal Service Fund
	Water Fund	Sewer Fund		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 1,608,074	\$ 1,496,846	\$ 3,104,920	\$ 161,589
Payments to suppliers	(394,633)	(349,126)	(743,759)	(18,291)
Payments to employees	(605,939)	(520,467)	(1,126,406)	(189,942)
Net cash provided by (used for) operating activities	<u>\$ 607,502</u>	<u>\$ 627,253</u>	<u>\$ 1,234,755</u>	<u>\$ (46,644)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	\$ (289,989)	\$ (195,248)	\$ (485,237)	\$ -
Transfers from other funds	-	145,500	145,500	46,644
Net cash provided by (used for) noncapital financing activities	<u>\$ (289,989)</u>	<u>\$ (49,748)</u>	<u>\$ (339,737)</u>	<u>\$ 46,644</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Additions to utility plant	\$ (81,320)	\$ (5,221,947)	\$ (5,303,267)	\$ -
Proceeds from the sale of assets	-	21,722	21,722	-
Principal payments on bonds	(130,137)	(194,881)	(325,018)	-
Capital grants	-	856,609	856,609	-
Proceeds from indebtedness	-	4,341,448	4,341,448	-
Bond issuance costs	-	(21,600)	(21,600)	-
Interest payments	(10,986)	(16,452)	(27,438)	-
Connection fees	3,621	75	3,696	-
Net cash provided by (used for) capital and related financing activities	<u>\$ (218,822)</u>	<u>\$ (235,026)</u>	<u>\$ (453,848)</u>	<u>\$ -</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends received	\$ -	\$ 177	\$ 177	\$ -
Net increase (decrease) in cash and cash equivalents	<u>\$ 98,691</u>	<u>\$ 342,656</u>	<u>\$ 441,347</u>	<u>\$ -</u>
Cash and cash equivalents - beginning	1,501,348	978,583	2,479,931	-
Cash and cash equivalents - ending	<u>\$ 1,600,039</u>	<u>\$ 1,321,239</u>	<u>\$ 2,921,278</u>	<u>\$ -</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 427,788	\$ 409,625	\$ 837,413	\$ (49,252)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 156,376	\$ 173,269	\$ 329,645	\$ -
OPEB expense	3,508	2,958	6,466	-
(Increase) decrease in accounts receivable	23,477	47,378	70,855	-
Increase (decrease) in customer deposits	1,517	294	1,811	-
Increase (decrease) in accounts payable	(3)	(700)	(703)	4
Increase (decrease) in wages payable	(5,093)	(4,722)	(9,815)	2,604
Increase (decrease) in compensated absences	(68)	(849)	(917)	-
Total adjustments	<u>\$ 179,714</u>	<u>\$ 217,628</u>	<u>\$ 397,342</u>	<u>\$ 2,608</u>
Net cash provided by (used for) operating activities	<u>\$ 607,502</u>	<u>\$ 627,253</u>	<u>\$ 1,234,755</u>	<u>\$ (46,644)</u>

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

CITY OF COVINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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**Note 1—Summary of Significant Accounting Policies:**

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

A. Financial Reporting Entity

The City of Covington, Virginia is a municipal corporation governed by an elected five-member City Council. The accompanying financial statements present the government and its component 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 2012 was \$110,598.

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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 net assets is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide statement of net assets and report depreciation expense – the cost of “using up” capital assets – in the statement of activities. The net assets of a government will be broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

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.

**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 5<sup>th</sup> and June 5<sup>th</sup>. Personal property taxes are due and collectible annually on December 5<sup>th</sup> and June 5<sup>th</sup>. The City bills and collects its own property taxes.

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 \$92,038 at June 30, 2012 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, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

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**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 the asset's life are not capitalized.

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

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

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

7. Compensated Absences

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

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net 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, 2012

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of these \$(35,578,645) and \$(593,902) 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	\$ (29,749,799)	\$ -
Accrued interest payable	(380,260)	-
Landfill accrued closure and post-closure monitoring costs	(5,033,419)	-
Discount on lease revenue issuance	244,914	-
Net OPEB obligation	(274,926)	(188,700)
Compensated absences	(385,155)	(405,202)
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	\$ (35,578,645)	\$ (593,902)

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

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

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of these \$(1,305,208) and \$1,028,727 differences for the primary government and discretely presented component unit, respectively, are as follows:

	Primary Government	Component Unit School Board
Capital outlays	\$ 1,159,993	\$ 21,709
Net value of assets transferred	(1,142,113)	1,142,113
Depreciation expenses	<u>(1,323,088)</u>	<u>(135,095)</u>
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (1,305,208)</u>	<u>\$ 1,028,727</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

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

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

Another element of that reconciliation states “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$414,052 difference in the primary government are as follows:

	<u>Primary Government</u>
Debt Issued or Incurred:	
Issuance of general obligation refunding bonds	\$ (15,279,100)
Issuance costs (to be amortized over life of debt)	110,350
Accrued landfill closure/postclosure	(117,971)
Principal Repayments:	
General obligation bonds	319,522
Lease revenue bonds	50,000
Capital leases	90,001
Literary loans	72,500
Payment to bond escrow agent	<u>15,168,750</u>
Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities.</i>	\$ <u>414,052</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

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

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

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of these \$(47,932) and \$(12,475) 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	\$ 8,467	\$ (11,300)
(Increase) decrease in net OPEB obligation	(28,334)	(1,175)
Amortization of bond issuance costs	(44,965)	-
Amortization of bond discount	(5,840)	-
Amortization of bond premiums	39,994	-
Amortization of deferred amount on refundings	(27,659)	-
(Increase) decrease in accrued interest	10,405	-
	<hr/>	<hr/>
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>	\$ (47,932)	\$ (12,475)

**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.

**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 commit that portion of the applicable appropriations, is not part of the City's accounting system.

B. Excess of expenditures over appropriations

The Electoral Board department overspent its appropriations for the year ended June 30, 2012.

C. Deficit fund equity

At June 30, 2012, 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, 2012

**Note 4—Deposits and Investments: (Continued)**

Investments

Statutes authorize the City and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2012 and June 30, 2011, the City had 1,176 shares of MetLife Trust stock valued at a \$32.05 and \$43.87 per share for a total of \$37,691 and \$51,591, respectively.

**Note 5—Due from Other Governmental Units:**

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

	Primary Government		Component Unit
	Governmental	Business-type	School Board
<u>Commonwealth of Virginia:</u>			
Local sales tax	\$ 208,682	\$ -	\$ -
State sales tax	-	-	142,929
Non-categorical aid	308,378	-	-
Categorical aid - shared expenses	48,451	-	-
Categorical aid - Comprehensive Services Act	98,935	-	-
Categorical aid - other	21,680	76,833	-
<u>Federal Government:</u>			
Categorical aid - VPA	21,701	-	-
Categorical aid - other	36,855	-	140,370
Totals	<u>\$ 744,682</u>	<u>\$ 76,833</u>	<u>\$ 283,299</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 6—Interfund Transfers:**

Interfund transfers for the year ended June 30, 2012, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 339,737	\$ 487,845
Water Fund	-	289,989
Sewer Fund	145,500	195,248
Motor Vehicle Internal Serv. Fund	46,644	-
School Debt Reserve Fund	441,201	-
Total	<u>\$ 973,082</u>	<u>\$ 973,082</u>

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

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

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2012:

	<u>Balance July 1, 2011</u>	<u>Increases/ Issuances</u>	<u>Decreases/ Retirements</u>	<u>Balance June 30, 2012</u>
General obligation bonds	\$ 3,276,008	\$ 15,279,100	\$ (319,522)	\$ 18,235,586
Deferred amounts:				
Bond premiums	298,575	-	(298,575)	-
On refunding	(70,459)	(42,817)	27,659	(85,617)
Discounts	(250,754)	-	5,840	(244,914)
Bond anticipation notes	15,000,000	-	(15,000,000)	-
Literary loans	72,500	-	(72,500)	-
Lease revenue bond	11,390,000	-	(50,000)	11,340,000
Capital leases (note 8)	349,831	-	(90,001)	259,830
Landfill closure/ postclosure liability	4,915,448	117,971	-	5,033,419
Compensated absences	393,622	286,750	(295,217)	385,155
Net OPEB obligation	246,592	47,467	(19,133)	274,926
Total	<u>\$ 35,621,363</u>	<u>\$ 15,688,471</u>	<u>\$ (16,111,449)</u>	<u>\$ 35,198,385</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

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**Note 7—Long-Term Obligations: (Continued)**Primary Government - Governmental Activity Indebtedness: (Continued)

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

Year Ending June 30,	General Obligation Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 329,486	\$ 445,259	\$ 50,000	\$ 517,038
2014	133,000	436,062	100,000	514,037
2015	137,000	430,850	100,000	510,038
2016	146,000	425,478	100,000	506,037
2017	15,425,100	364,241	100,000	502,038
2018-2022	836,000	341,746	500,000	2,450,125
2023-2027	1,003,000	165,855	500,000	2,343,313
2028-2032	226,000	8,859	2,715,000	2,092,696
2033-2037	-	-	5,125,000	1,066,641
2038-2039	-	-	2,050,000	94,812
Totals	\$ <u>18,235,586</u>	\$ <u>2,618,350</u>	\$ <u>11,340,000</u>	\$ <u>10,596,775</u>

The City issued \$15,279,100 of general obligation refunding bond anticipation notes to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$15,000,000 of the refunded general obligation bond anticipation notes. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$42,817. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to extend the due date in anticipation of replacing the bond anticipation notes with a literary loan. The refunding resulted in an economic gain of \$9,673.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 7—Long-Term Obligations: (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	\$ 2,755,000	\$ 128,000
GO Bond	2.51%	1/25/2008	2013	959,000	201,486	201,486
GO Refunding BAN	3.38%	9/27/2011	2017	15,279,100	15,279,100	-
Total GO Bonds					<u>18,235,586</u>	<u>329,486</u>
Less:						
Deferred Amount on Refunding				(106,932)	(64,208)	(6,251)
Deferred Amount on Refunding				(42,817)	(21,409)	(21,409)
Total GO Bonds, net					<u>\$ 18,149,969</u>	<u>\$ 301,826</u>
Other Long-term Obligations:						
Lease Revenue Bond	4.00%-4.50%	12/1/2007	2039	\$ 11,490,000	\$ 11,340,000	\$ 50,000
Discount on Bond				(274,460)	(244,914)	(5,840)
Total Other Long-term Obligations					<u>\$ 11,095,086</u>	<u>\$ 44,160</u>
Other Obligations:						
Capital lease	4.04%	3/16/2005	2015	\$ 731,128	\$ 244,434	\$ 78,273
Capital lease	4.18%	10/19/2007	2013	70,941	15,396	15,396
Total Capital Leases					<u>\$ 259,830</u>	<u>\$ 93,669</u>
Compensated Absences					385,155	-
Net OPEB obligation					274,926	-
Landfill Closure/Post-closure Monitoring					5,033,419	-
Total Other Obligations					<u>\$ 5,953,330</u>	<u>\$ 93,669</u>
Total Long-term Obligations					<u>\$ 35,198,385</u>	<u>\$ 439,655</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 7—Long-Term Obligations: (Continued)**

Primary Government - Enterprise Activity Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2012:

	Balance July 1, 2011	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2012
Revenue bonds	\$ 2,091,761	\$ 4,341,448	\$ (325,018)	\$ 6,108,191
Deferred amount on refunding	(26,491)	-	8,830	(17,661)
Net OPEB obligation	53,508	10,833	(4,367)	59,974
Compensated absences	79,966	-	(917)	79,049
<b>Total</b>	<b>\$ 2,198,744</b>	<b>\$ 4,352,281</b>	<b>\$ (321,472)</b>	<b>\$ 6,229,553</b>

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
2013	\$ 135,504	\$ 6,710	\$ 202,917	\$ 10,048	\$ 270,928	\$ -
2014	140,623	2,264	210,584	3,390	270,928	-
2015	-	-	-	-	270,928	-
2016	-	-	-	-	270,928	-
2017	-	-	-	-	270,928	-
2018-2022	-	-	-	-	1,354,641	-
2023-2027	-	-	-	-	1,354,641	-
2028-2032	-	-	-	-	1,354,641	-
<b>Totals</b>	<b>\$ 276,127</b>	<b>\$ 8,974</b>	<b>\$ 413,501</b>	<b>\$ 13,438</b>	<b>\$ 5,418,563</b>	<b>\$ -</b>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 7—Long-Term Obligation: (Continued)**

Primary Government - Enterprise Activity Indebtedness: (Continued)

Details of long-term indebtedness:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Business-type Activities</u>	<u>Amount Due Within One Year</u>
Revenue Bond:						
Revenue Bond	3.22%	8/18/2004	2014	\$ 4,665,377	\$ 689,628	\$ 338,421
Revenue Bond	0.00%	12/1/2010	2031	5,000,000	4,784,460	239,223
Revenue Bond	0.00%	5/10/2012	2032	6,500,000	634,103	31,705
Deferred Amount on Refunding					(17,661)	(8,830)
Total Revenue Bonds					<u>\$ 6,090,530</u>	<u>\$ 600,519</u>
Other Obligations:						
Compensated Absences					\$ 79,049	\$ -
Net OPEB Obligation					59,974	-
Total Other Obligations					<u>\$ 139,023</u>	<u>\$ -</u>
Total Long-term debt					<u>\$ 6,229,553</u>	<u>\$ 600,519</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 future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Fire Truck</u>	<u>Refuse Vehicle</u>
Machinery and equipment	\$ 731,128	\$ 70,941
Less: Accumulated depreciation	<u>(532,822)</u>	<u>(55,761)</u>
Net Asset	<u>\$ 198,306</u>	<u>\$ 15,180</u>

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 8—Capital Leases: (Continued)**

Primary Government: (Continued)

The future minimum lease obligations and the net present value of minimum lease payments as of June 30, 2012, were as follows:

Fiscal Year Ended	Fire Truck	Refuse Vehicle
2013	\$ 88,148	\$ 16,051
2014	88,148	-
2015	88,149	-
Total minimum lease payments	\$ 264,445	\$ 16,051
Less: amount representing interest	(20,011)	(655)
Present value of minimum lease payments	\$ 244,434	\$ 15,396

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

Discretely Presented Component Unit - School Board-Indebtedness:

The following is a summary of long-term obligation transactions of the School Board for the year ended June 30, 2012:

	Balance July 1, 2011	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2012
Compensated absences	\$ 404,027	\$ 1,175	\$ -	\$ 405,202
Net OPEB obligation	177,400	75,000	(63,700)	188,700
	\$ 581,427	\$ 76,175	\$ (63,700)	\$ 593,902

Details of long-term indebtedness:

	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:		
Compensated absences	\$ 405,202	\$ -
Net OPEB obligation	188,700	-
Total Long-term Obligations	\$ 593,902	\$ -

**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 five years of service credit or age 50 with at least 10 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 most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-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 2012 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 2012 was 11.39% of annual covered payroll.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

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

C. Annual Pension Cost

For fiscal year 2012, the City of Covington, Virginia’s annual pension cost of \$612,967 and \$83,959 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) <sup>1</sup>	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2010	\$ 641,672	100.00%	\$ -
	6/30/2011	612,145	100.00%	-
	6/30/2012	612,967	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2010	\$ 75,643	100.00%	\$ -
	6/30/2011	81,751	100.00%	-
	6/30/2012	83,959	100.00%	-

<sup>1</sup> Employer & employee portions

The FY 2012 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, 2011, the most recent actuarial valuation date, the plan was 68.29% funded. The actuarial accrued liability for benefits was \$22,401,743, and the actuarial value of assets was \$15,298,840, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,102,903. The covered payroll (annual payroll of active employees covered by the plan) was \$3,443,668, and ratio of the UAAL to the covered payroll was 206.26%.

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

As of June 30, 2011, the most recent actuarial valuation date, the plan was 71.25% funded. The actuarial accrued liability for benefits was \$2,772,449, and the actuarial value of assets was \$1,975,309, resulting in an unfunded actuarial accrued liability (UAAL) of \$797,140. The covered payroll (annual payroll of active employees covered by the plan) was \$496,779, and ratio of the UAAL to the covered payroll was 160.46%.

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

E. Discretely Presented Component Unit School Board

*Professional Employees:*

Plan Description:

The Covington City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-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 \$339,388, \$153,458, and \$348,068 for the fiscal years ended 2012, 2011, and 2010, respectively. Required employer contributions represented 6.33%, 3.93%, and 8.81%, of covered payroll for the fiscal years ended 2012, 2011, and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

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

A. Plan Description

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

B. Funding Policy

The Covington City Government establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The City also determines how the plan will be funded each year, whether it will be partially funded or fully funded in the upcoming fiscal year. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City. For fiscal year 2012, the City and School Board contributed \$23,500 and \$63,700, 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
	General	Water	Sewer	Total	School Board
Annual required contribution	\$ 47,875	\$ 5,927	\$ 4,998	\$ 58,800	\$ 75,300
Interest on net OPEB obligation	9,770	1,210	1,020	12,000	7,100
Adjustment to annual required contribution	(10,178)	(1,260)	(1,062)	(12,500)	(7,400)
Annual OPEB cost (expense)	47,467	5,877	4,956	58,300	75,000
Actual contributions	(19,133)	(2,369)	(1,998)	(23,500)	(63,700)
Increase in net OPEB obligation	28,334	3,508	2,958	34,800	11,300
Net OPEB obligation - beginning of year	246,592	29,590	23,918	300,100	177,400
Net OPEB obligation - end of year	\$ 274,926	\$ 33,098	\$ 26,876	\$ 334,900	\$ 188,700

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

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

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

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

Entity	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
City	6/30/2012	58,300	40.31%	334,900
City	6/30/2011	102,500	18.34%	300,100
City	6/30/2010	93,403	31.90%	177,816
School Board	6/30/2012	75,000	84.93%	188,700
School Board	6/30/2011	73,000	64.79%	177,400
School Board	6/30/2010	153,600	53.97%	151,700

D. Funded Status and Funding Progress

City:

As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$701,300, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$3,443,700, and ratio of the UAAL to the covered payroll was 20.4%.

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 15.06%.

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, 2012, 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.

**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 2012 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 2012 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 2012, the City's contribution of \$17,335 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 2012 and the two preceding years:

	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%	-
	6/30/2012	17,335	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, 2012

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

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

For 2012, the School Board’s contribution of \$4,098 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 2012 and the two preceding years:

	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%	-
	6/30/2012	4,098	100.00%	-

D. Funded Status and Funding Progress

Primary Government:

The funded status of the plan as of June 30, 2011, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	305,680
Actuarial value of plan assets	\$	85,454
Unfunded actuarial accrued liability (UAAL)	\$	220,226
Funded ratio (actuarial value of plan assets/AAL)		27.96%
Covered payroll (active plan members)	\$	3,181,232
UAAL as a percentage of covered payroll		6.92%

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, 2012

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**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, 2011, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	64,353
Actuarial value of plan assets	\$	13,519
Unfunded actuarial accrued liability (UAAL)	\$	50,834
Funded ratio (actuarial value of plan assets/AAL)		21.01%
Covered payroll (active plan members)	\$	496,779
UAAL as a percentage of covered payroll		10.23%

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, 2011 was 30 years.

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

E. Actuarial Methods and Assumptions: (Continued)

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

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2011 was 30 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 0.60% of annual covered payroll. The School Board's contributions to VRS for the year ended June 30, 2012 was \$32,169 and equaled the required contributions.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 13—Capital Assets:**

Capital asset activity for the year ended June 30, 2012 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,654,067	\$ 301,804	\$ -	\$ 1,955,871
Construction in progress	112,100	728,034	(518,411)	321,723
Total capital assets not being depreciated	<u>\$ 1,766,167</u>	<u>\$ 1,029,838</u>	<u>\$ (518,411)</u>	<u>\$ 2,277,594</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 32,196,391	\$ -	\$ (2,219,466)	\$ 29,976,925
Infrastructure	511,401	518,411	-	1,029,812
Machinery and equipment	6,491,481	130,155	(15,180)	6,606,456
Total capital assets being depreciated	<u>\$ 39,199,273</u>	<u>\$ 648,566</u>	<u>\$ (2,234,646)</u>	<u>\$ 37,613,193</u>
Less: accumulated depreciation for:				
Buildings and improvements	\$ (5,898,333)	\$ (912,330)	\$ 1,077,353	\$ (5,733,310)
Infrastructure	(276,188)	(19,061)	-	(295,249)
Machinery and equipment	(4,274,027)	(391,697)	15,180	(4,650,544)
Total accumulated depreciation	<u>\$ (10,448,548)</u>	<u>\$ (1,323,088)</u>	<u>\$ 1,092,533</u>	<u>\$ (10,679,103)</u>
Total capital assets being depreciated, net	<u>\$ 28,750,725</u>	<u>\$ (674,522)</u>	<u>\$ (1,142,113)</u>	<u>\$ 26,934,090</u>
Governmental activities capital assets, net	<u>\$ 30,516,892</u>	<u>\$ 355,316</u>	<u>\$ (1,660,524)</u>	<u>\$ 29,211,684</u>

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 13—Capital Assets: (Continued)**

Primary Government: (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Enterprise Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 2,084,029	\$ 4,702,350	\$ (65,200)	\$ 6,721,179
Capital assets, being depreciated:				
Infrastructure	\$ 16,032,575	\$ 81,320	\$ -	\$ 16,113,895
Less: accumulated depreciation for:				
Infrastructure	\$ (8,855,251)	\$ (329,645)	\$ -	\$ (9,184,896)
Total capital assets being depreciated, net	\$ 7,177,324	\$ (248,325)	\$ -	\$ 6,928,999
Enterprise activities capital assets, net	<u>\$ 9,261,353</u>	<u>\$ 4,454,025</u>	<u>\$ (65,200)</u>	<u>\$ 13,650,178</u>

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

Governmental activities:	
General government administration	\$ 90,692
Public safety	210,926
Public works	307,161
Education	585,102
Parks, recreation, and cultural	<u>129,207</u>
Total depreciation expense-governmental activities	\$ <u>1,323,088</u>
Enterprise activities:	
Water and sewer funds	\$ <u>329,645</u>
Total depreciation expense-Primary Government	<u>\$ 1,652,733</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**Note 13—Capital Assets: (Continued)**

Discretely Presented Component Unit

Capital asset activity for the School Board for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 89,663	\$ -	\$ -	\$ 89,663
Capital assets, being depreciated:				
Buildings	\$ 968,994	\$ 2,219,466	\$ -	\$ 3,188,460
Machinery and equipment	952,741	21,709	-	974,450
Total capital assets being depreciated	<u>\$ 1,921,735</u>	<u>\$ 2,241,175</u>	<u>\$ -</u>	<u>\$ 4,162,910</u>
Less: accumulated depreciation for:				
Buildings	\$ (387,006)	\$ (1,150,053)	\$ -	\$ (1,537,059)
Machinery and equipment	(644,177)	(62,395)	-	(706,572)
Total accumulated depreciation	<u>\$ (1,031,183)</u>	<u>\$ (1,212,448)</u>	<u>\$ -</u>	<u>\$ (2,243,631)</u>
Total capital assets being depreciated, net	<u>\$ 890,552</u>	<u>\$ 1,028,727</u>	<u>\$ -</u>	<u>\$ 1,919,279</u>
Governmental activities capital assets, net	<u>\$ 980,215</u>	<u>\$ 1,028,727</u>	<u>\$ -</u>	<u>\$ 2,008,942</u>

**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, 2012

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**Note 15—Contingent Liabilities:**

Federal programs in which the City and its component unit participate were audited in accordance with the 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.

**Note 16—Surety Bonds:**

<u>Fidelity &amp; Deposit Company of Maryland-Surety:</u>	
J.B. Broughman, 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. \$5,033,419 is the total estimated closure and postclosure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2012. 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 2012. 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 61.4% full, including cells A and B. The life expectancy for cells A and B is 7.5 years based on an average annual disposal rate. The current year liability is based on a study performed as of that date and adjusted for inflation. Actual costs for closure and 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.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2012

**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	\$ 2,858,682	\$ 2,539,478
Personal property taxes relief	9,397	9,397
Prepaid taxes	35,111	35,111
Total deferred/unearned revenue for governmental funds	\$ 2,903,190	\$ 2,583,986

**Note 19 – Commitments and Contingencies:**

	Original Contract	Amount Paid As of 6/30/2012	Remaining Contract Amount	Accounts Payable	Retainage Payable
WWTP Upgrades	\$ 3,955,219	\$ 3,819,657	\$ 135,562	\$ 135,562	\$ -
Sewer Separation Project	4,903,328	-	4,903,328	-	-
Total Contracts	\$ 8,858,547	\$ 3,819,657	\$ 5,038,890	\$ 135,562	\$ -

**Note 20 – Concentrations:**

The City of Covington, Virginia relies heavily on the MeadWestvaco plant for tax revenue and employment of citizens. MeadWestvaco directly comprises 14.05% of the real estate tax levy and 73.13% of the personal property taxes for a combined 58.52% of the total City's 2012 tax levy.

## **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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 7,317,354	\$ 7,317,354	\$ 7,227,463	\$ (89,891)
Other local taxes	3,416,385	3,416,385	3,668,311	251,926
Permits, privilege fees, and regulatory licenses	9,802	9,802	30,126	20,324
Fines and forfeitures	39,000	39,000	12,163	(26,837)
Revenue from the use of money and property	35,500	35,500	27,471	(8,029)
Charges for services	946,475	946,475	1,013,063	66,588
Miscellaneous	1,400	1,400	11,204	9,804
Recovered costs	25,000	25,000	49,091	24,091
Intergovernmental revenues:				
Commonwealth	3,634,953	4,085,140	3,264,295	(820,845)
Federal	214,595	872,609	696,981	(175,628)
Total revenues	<u>\$ 15,640,464</u>	<u>\$ 16,748,665</u>	<u>\$ 16,000,168</u>	<u>\$ (748,497)</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 1,406,286	\$ 1,767,790	\$ 1,679,198	\$ 88,592
Judicial administration	128,299	128,299	123,380	4,919
Public safety	3,023,069	3,826,692	3,008,874	817,818
Public works	2,535,221	2,562,814	2,269,664	293,150
Health and welfare	1,741,463	2,125,933	1,781,741	344,192
Education	4,121,113	4,197,539	4,132,689	64,850
Parks, recreation, and cultural	1,271,745	1,989,296	1,691,179	298,117
Community development	76,323	76,823	70,625	6,198
Nondepartmental	175,907	56,012	-	56,012
Debt service:				
Principal retirement	532,024	532,024	532,023	1
Interest and other fiscal charges	1,166,119	1,166,119	1,024,415	141,704
Total expenditures	<u>\$ 16,177,569</u>	<u>\$ 18,429,341</u>	<u>\$ 16,313,788</u>	<u>\$ 2,115,553</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (537,105)</u>	<u>\$ (1,680,676)</u>	<u>\$ (313,620)</u>	<u>\$ 1,367,056</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 337,355	\$ 337,355	\$ 339,737	\$ 2,382
Transfers out	-	(300,000)	(487,845)	(187,845)
Total other financing sources (uses)	<u>\$ 337,355</u>	<u>\$ 37,355</u>	<u>\$ (148,108)</u>	<u>\$ (185,463)</u>
Net change in fund balances	\$ (199,750)	\$ (1,643,321)	\$ (461,728)	\$ 1,181,593
Fund balances - beginning	199,750	1,643,321	3,543,131	1,899,810
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,081,403</u>	<u>\$ 3,081,403</u>

## City of Covington, Virginia

Schedule of Pension and OPEB Funding Progress  
For the Year Ended June 30, 2012

## Primary Government: City Retirement Plan

Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio Assets as % of AAL (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2011	\$ 15,298,840	\$ 22,401,743	\$ 7,102,903	68.29%	\$ 3,443,668	206.26%
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%

## City Postemployment Healthcare Plan

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

## City Postemployment VRS Health Insurance Credit

Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio Assets as % of AAL (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2011	\$ 85,454	\$ 305,680	\$ 220,226	27.96%	\$ 3,181,232	6.92%
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%

## School Board Non-Professional Retirement Plan

Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio Assets as % of AAL (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2011	\$ 1,975,309	\$ 2,772,449	\$ 797,140	71.25%	\$ 496,779	160.46%
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%

## School Board Postemployment Healthcare Plan

Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio Assets as % of AAL (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
July 1, 2010*	\$ -	\$ 829,000	\$ 829,000	0.00%	\$ 5,506,000	15.06%
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 (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio Assets as % of AAL (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2011	\$ 13,519	\$ 64,353	\$ 50,834	21.01%	\$ 496,779	10.23%
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%

\*Only two years 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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 18,420	\$ 21,667	\$ 21,666	\$ (1)
<b>EXPENDITURES</b>				
Debt service:				
Principal retirement	\$ 2,421,970	\$ 2,568,778	\$ -	\$ 2,568,778
Excess (deficiency) of revenues over (under) expenditures	\$ (2,403,550)	\$ (2,547,111)	\$ 21,666	\$ 2,568,777
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 300,000	\$ 441,201	\$ 441,201	\$ -
Net change in fund balances	(2,103,550)	(2,105,910)	462,867	2,568,777
Fund balances - beginning	2,103,550	2,105,910	2,105,910	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,568,777</u>	<u>\$ 2,568,777</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ -	\$ 59	\$ 58	\$ (1)
<b>EXPENDITURES</b>				
Debt service:				
Bond issuance costs	\$ -	\$ 110,350	\$ 110,350	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (110,291)	\$ (110,292)	\$ (1)
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of general obligation bonds	\$ -	\$ 15,279,100	\$ 15,279,100	\$ -
Payment to refunded bond escrow agent	-	(16,181,195)	(15,168,750)	1,012,445
Total other financing sources (uses)	\$ -	\$ (902,095)	\$ 110,350	\$ 1,012,445
Net change in fund balances	\$ -	\$ (1,012,386)	\$ 58	\$ 1,012,444
Fund balances - beginning	-	1,012,386	1,012,385	(1)
Fund balances - ending	\$ -	\$ -	\$ 1,012,443	\$ 1,012,443

## **DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**

### **MAJOR GOVERNMENTAL FUNDS**

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

City of Covington, Virginia  
Balance Sheet  
Discretely Presented Component Unit - School Board  
June 30, 2012

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	<u>School Operating Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 829,838
Cash in custody of others	112,213
Receivables (net of allowance for uncollectibles):	
Accounts receivable	61,250
Due from other governmental units	283,299
Inventories	7,448
Prepaid items	117,365
Total assets	<u>\$ 1,411,413</u>
 <b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 13,712
Accrued liabilities	816,394
Due to primary government	256,569
Total liabilities	<u>\$ 1,086,675</u>
Fund balances:	
Nonspendable:	
Prepaid items	\$ 117,365
Inventory	7,448
Restricted:	
Cafeteria	112,213
Assigned:	
Textbook Funds	205,077
Unassigned:	
Total fund balances	<u>\$ 324,738</u>
Total liabilities and fund balances	<u>\$ 1,411,413</u>
 Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Total fund balances per above	\$ 324,738
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,008,942
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(593,902)
Net assets of governmental activities	<u>\$ 1,739,778</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, 2012

	<u>School Operating Fund</u>
<b>REVENUES</b>	
Revenue from the use of money and property	\$ 1,264
Charges for services	129,326
Miscellaneous	297,512
Recovered costs	31,004
Intergovernmental revenues:	
Local government	4,131,189
Commonwealth	4,888,994
Federal	1,112,440
Total revenues	<u>\$ 10,591,729</u>
<b>EXPENDITURES</b>	
Current:	
Education	\$ 10,531,661
Capital projects	70,148
Total expenditures	<u>\$ 10,601,809</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (10,080)</u>
Net change in fund balances	\$ (10,080)
Fund balances - beginning	334,818
Fund balances - ending	<u>\$ 324,738</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	\$ (10,080)
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.	1,028,727
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.	(12,475)
Change in net assets of governmental activities	<u>\$ 1,006,172</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, 2012

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>REVENUES</b>				
Revenue from the use of money and property	\$ 500	\$ 500	\$ 1,264	\$ 764
Charges for services	438,284	438,284	129,326	(308,958)
Miscellaneous	45,352	45,352	297,512	252,160
Recovered costs	270,000	270,000	31,004	(238,996)
Intergovernmental revenues:				
Local government	4,068,613	4,145,039	4,131,189	(13,850)
Commonwealth	4,935,747	4,935,747	4,888,994	(46,753)
Federal	1,045,070	1,045,070	1,112,440	67,370
Total revenues	<u>\$ 10,803,566</u>	<u>\$ 10,879,992</u>	<u>\$ 10,591,729</u>	<u>\$ (288,263)</u>
<b>EXPENDITURES</b>				
Current:				
Education	\$ 10,746,066	\$ 10,808,729	\$ 10,531,661	\$ 277,068
Capital projects	357,500	371,263	70,148	301,115
Total expenditures	<u>\$ 11,103,566</u>	<u>\$ 11,179,992</u>	<u>\$ 10,601,809</u>	<u>\$ 578,183</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (300,000)</u>	<u>\$ (300,000)</u>	<u>\$ (10,080)</u>	<u>\$ 289,920</u>
Net change in fund balances	\$ (300,000)	\$ (300,000)	\$ (10,080)	\$ 289,920
Fund balances - beginning	300,000	300,000	334,818	34,818
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 324,738</u>	<u>\$ 324,738</u>

## **Supporting Schedules**

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,921,770	\$ 1,921,770	\$ 1,879,561	\$ (42,209)
Real and personal public service corporation taxes	148,600	148,600	182,391	33,791
Personal property taxes	926,794	926,794	858,003	(68,791)
Mobile home taxes	9,030	9,030	6,394	(2,636)
Machinery and tools taxes	4,243,160	4,243,160	4,228,196	(14,964)
Penalties	40,000	40,000	43,214	3,214
Interest	28,000	28,000	29,704	1,704
Total general property taxes	<u>\$ 7,317,354</u>	<u>\$ 7,317,354</u>	<u>\$ 7,227,463</u>	<u>\$ (89,891)</u>
Other local taxes:				
Local sales and use taxes	\$ 1,180,000	\$ 1,180,000	\$ 1,271,885	\$ 91,885
Consumers' utility taxes	447,385	447,385	411,332	(36,053)
Consumption taxes	25,000	25,000	24,610	(390)
Business license taxes	500,000	500,000	543,943	43,943
Franchise license taxes	-	-	1,500	1,500
Motor vehicle licenses	141,000	141,000	177,030	36,030
Bank stock taxes	125,000	125,000	139,095	14,095
Recordation tax	27,000	27,000	23,519	(3,481)
Hotel and motel room taxes	6,000	6,000	16,469	10,469
Restaurant food taxes	850,000	850,000	931,681	81,681
Tobacco taxes	115,000	115,000	127,247	12,247
Total other local taxes	<u>\$ 3,416,385</u>	<u>\$ 3,416,385</u>	<u>\$ 3,668,311</u>	<u>\$ 251,926</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 100	\$ 100	\$ 859	\$ 759
Dog pound fees	100	100	36	(64)
Special use permits	500	500	81	(419)
Zoning and subdivision permits	800	800	772	(28)
Building permits	8,100	8,100	28,164	20,064
Sign permits	200	200	214	14
Other permits and licenses	2	2	-	(2)
Total permits, privilege fees, and regulatory licenses	<u>\$ 9,802</u>	<u>\$ 9,802</u>	<u>\$ 30,126</u>	<u>\$ 20,324</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 39,000	\$ 39,000	\$ 12,163	\$ (26,837)
Revenue from use of money and property:				
Revenue from use of money	\$ 25,000	\$ 25,000	\$ 15,520	\$ (9,480)
Revenue from use of property	10,500	10,500	11,951	1,451
Total revenue from use of money and property	<u>\$ 35,500</u>	<u>\$ 35,500</u>	<u>\$ 27,471</u>	<u>\$ (8,029)</u>
Charges for services:				
Charges for fire and rescue services	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Charges for sanitation and waste removal	724,750	724,750	766,532	41,782
Charges for parks and recreation	38,700	38,700	46,957	8,257
Charges for landfill closure	52,500	52,500	63,397	10,897

City of Covington, Virginia  
 Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 For the Year Ended June 30, 2012

<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>
<b>General Fund: (Continued)</b>				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Charges for cemetery	\$ 30,000	\$ 30,000	\$ 35,793	\$ 5,793
Charges for other services	525	525	384	(141)
Total charges for services	<u>\$ 946,475</u>	<u>\$ 946,475</u>	<u>\$ 1,013,063</u>	<u>\$ 66,588</u>
Miscellaneous revenue:				
Miscellaneous	\$ 1,400	\$ 1,400	\$ 11,204	\$ 9,804
Recovered costs:				
CSA recoveries	\$ -	\$ -	\$ 23,373	\$ 23,373
Other recovered costs	25,000	25,000	25,718	718
Total recovered costs	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 49,091</u>	<u>\$ 24,091</u>
Total revenue from local sources	<u>\$ 11,790,916</u>	<u>\$ 11,790,916</u>	<u>\$ 12,038,892</u>	<u>\$ 247,976</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 28,200	\$ 28,200	\$ 14,440	\$ (13,760)
Mobile home titling tax	2,000	2,000	1,152	(848)
Motor vehicle rental tax	-	-	21,705	21,705
State recordation tax	-	-	6,725	6,725
State aid to localities	-	-	(53,111)	(53,111)
Telecommunications taxes	320,000	320,000	316,924	(3,076)
Personal property tax relief funds	544,946	544,946	544,946	-
Total noncategorical aid	<u>\$ 895,146</u>	<u>\$ 895,146</u>	<u>\$ 852,781</u>	<u>\$ (42,365)</u>
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 63,000	\$ 63,000	\$ 64,482	\$ 1,482
Treasurer	64,000	64,000	65,176	1,176
Registrar/electoral board	33,000	33,000	38,683	5,683
Total shared expenses	<u>\$ 160,000</u>	<u>\$ 160,000</u>	<u>\$ 168,341</u>	<u>\$ 8,341</u>
Other categorical aid:				
Welfare payments	\$ 429,793	\$ 429,793	\$ 167,759	\$ (262,034)
CSA payments	630,562	919,107	766,605	(152,502)
Criminal justice grant	257,130	257,130	257,128	(2)
Litter control grant	5,500	5,500	4,876	(624)
Technology E-911 grants	41,000	41,000	40,000	(1,000)
Fire program	16,000	177,359	18,851	(158,508)
Asset forfeiture	33,000	33,000	9,205	(23,795)
Local government challenge grant	5,000	5,000	5,000	-
Emergency four for life	5,100	5,100	5,338	238
School resource officer	17,720	17,720	18,878	1,158
Law enforcement block grant	6,500	6,500	4,107	(2,393)

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>General Fund: (Continued)</b>				
Intergovernmental revenues: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid: (Continued)				
State highway payments	\$ 884,000	\$ 884,000	\$ 917,335	\$ 33,335
Victim-witness grant	14,155	14,438	12,558	(1,880)
Information technology E-911 grant	200,000	200,000	-	(200,000)
E-911 grant program - wireless trunking	-	-	1,418	1,418
Emergency medical services	34,346	34,346	14,014	(20,332)
Other State funds	-	-	101	101
Total other categorical aid	<u>\$ 2,579,807</u>	<u>\$ 3,029,994</u>	<u>\$ 2,243,173</u>	<u>\$ (786,821)</u>
Total categorical aid	<u>\$ 2,739,807</u>	<u>\$ 3,189,994</u>	<u>\$ 2,411,514</u>	<u>\$ (778,480)</u>
Total revenue from the Commonwealth	<u>\$ 3,634,953</u>	<u>\$ 4,085,140</u>	<u>\$ 3,264,295</u>	<u>\$ (820,845)</u>
Revenue from the federal government:				
Categorical aid:				
USDA community facilities grant	\$ 35,750	\$ 35,750	-	\$ (35,750)
Victim witness	42,466	43,315	37,674	(5,641)
Bulletproof vest program grant	1,750	-	-	-
DMV grant	19,000	676,165	494,114	(182,051)
Byrne criminal justice grant	-	1,750	1,328	(422)
Public assistance and welfare administration	115,630	115,630	163,865	48,235
Total categorical aid	<u>\$ 214,595</u>	<u>\$ 872,609</u>	<u>\$ 696,981</u>	<u>\$ (175,628)</u>
Total revenue from the federal government	<u>\$ 214,595</u>	<u>\$ 872,609</u>	<u>\$ 696,981</u>	<u>\$ (175,628)</u>
Total General Fund	<u>\$ 15,640,464</u>	<u>\$ 16,748,665</u>	<u>\$ 16,000,168</u>	<u>\$ (748,497)</u>
<b>Debt Service Fund:</b>				
<b>School Debt Service Reserve Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ 18,420	\$ 21,667	\$ 21,666	\$ (1)
Total School Debt Service Fund	<u>\$ 18,420</u>	<u>\$ 21,667</u>	<u>\$ 21,666</u>	<u>\$ (1)</u>

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Capital Projects Fund:</b>				
<b>School Construction Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ 59	\$ 58	\$ (1)
Total School Construction Fund	<u>\$ -</u>	<u>\$ 59</u>	<u>\$ 58</u>	<u>\$ (1)</u>
Total Primary Government	<u>\$ 15,658,884</u>	<u>\$ 16,770,391</u>	<u>\$ 16,021,892</u>	<u>\$ (748,499)</u>
<b>Discretely Presented Component Unit - School Board:</b>				
<b>School Operating Fund:</b>				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 464	\$ 464
Revenue from the use of property	500	500	800	300
Total revenue from use of money and property	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 1,264</u>	<u>\$ 764</u>
Charges for services:				
Cafeteria sales	<u>\$ 438,284</u>	<u>\$ 438,284</u>	<u>\$ 129,326</u>	<u>\$ (308,958)</u>
Miscellaneous revenue:				
Miscellaneous	<u>\$ 45,352</u>	<u>\$ 45,352</u>	<u>\$ 297,512</u>	<u>\$ 252,160</u>
Recovered costs:				
Payments from other localities	<u>\$ 270,000</u>	<u>\$ 270,000</u>	<u>\$ 31,004</u>	<u>\$ (238,996)</u>
Total revenue from local sources	<u>\$ 754,136</u>	<u>\$ 754,136</u>	<u>\$ 459,106</u>	<u>\$ (295,030)</u>
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Covington, Virginia	<u>\$ 4,068,613</u>	<u>\$ 4,145,039</u>	<u>\$ 4,131,189</u>	<u>\$ (13,850)</u>
Revenue from the Commonwealth:				
Categorical aid:				
Algebra readiness	\$ 9,221	\$ 9,221	\$ 11,470	\$ 2,249
At risk four year olds	97,720	97,720	97,720	-
At risk payments	87,474	87,474	86,124	(1,350)
Basic school aid	2,685,592	2,685,592	2,634,346	(51,246)
Early reading intervention	20,244	20,244	15,745	(4,499)
Education technology payment	128,000	128,000	146,441	18,441
English as a second language	2,853	2,853	815	(2,038)
Fringe benefits	335,801	335,801	330,543	(5,258)
Gifted and talented	27,983	27,983	27,545	(438)
Other state funds	82,831	82,831	46,656	(36,175)
ISAEF program	7,859	7,859	7,859	-
Lottery funds	-	-	32,687	32,687
National board certification teacher bonus	-	-	5,000	5,000
Primary class size	136,509	136,509	130,838	(5,671)
Remedial education	98,253	98,253	96,714	(1,539)
School food	10,806	10,806	11,585	779

City of Covington, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Discretely Presented Component Unit - School Board: (Continued)</b>				
<b>School Operating Fund: (Continued)</b>				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Remedial summer education	\$ 21,700	\$ 21,700	\$ 22,378	\$ 678
Share of state sales tax	631,093	631,093	670,523	39,430
Special education	380,027	380,027	374,131	(5,896)
Special education - foster children	39,918	39,918	15,791	(24,127)
Textbook payment	25,223	25,223	24,827	(396)
Vocational education	98,253	98,253	96,714	(1,539)
Vocational education - equipment	-	-	2,542	2,542
Vocational education - technology	8,387	8,387	-	(8,387)
Total categorical aid	<u>\$ 4,935,747</u>	<u>\$ 4,935,747</u>	<u>\$ 4,888,994</u>	<u>\$ (46,753)</u>
Total revenue from the Commonwealth	<u>\$ 4,935,747</u>	<u>\$ 4,935,747</u>	<u>\$ 4,888,994</u>	<u>\$ (46,753)</u>
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 264,325	\$ 264,325	\$ 270,185	\$ 5,860
Title VI-B, special education flow-through	172,500	172,500	227,482	54,982
Vocational education	18,084	18,084	16,005	(2,079)
Title VI-B, special education pre-school	10,273	10,273	10,264	(9)
School lunch program	300,000	300,000	287,215	(12,785)
School lunch commodities	-	-	22,131	22,131
Education technology	3,000	3,000	-	(3,000)
ARRA - Jobs fund	213,888	213,888	217,244	3,356
Class size reduction	63,000	63,000	61,914	(1,086)
Total categorical aid	<u>\$ 1,045,070</u>	<u>\$ 1,045,070</u>	<u>\$ 1,112,440</u>	<u>\$ 67,370</u>
Total revenue from the federal government	<u>\$ 1,045,070</u>	<u>\$ 1,045,070</u>	<u>\$ 1,112,440</u>	<u>\$ 67,370</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 10,803,566</u>	<u>\$ 10,879,992</u>	<u>\$ 10,591,729</u>	<u>\$ (288,263)</u>

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>General Fund:</b>				
General government administration:				
Legislative:				
City council	\$ 34,473	\$ 338,904	\$ 340,258	\$ (1,354)
City clerk	11,155	11,694	11,544	150
Total legislative	<u>\$ 45,628</u>	<u>\$ 350,598</u>	<u>\$ 351,802</u>	<u>\$ (1,204)</u>
General and financial administration:				
City manager	\$ 255,772	\$ 254,987	\$ 238,810	\$ 16,177
Information technology	59,500	70,500	42,016	28,484
Legal services	45,545	58,545	53,266	5,279
Commissioner of revenue	212,597	220,409	211,610	8,799
Independent auditors	54,610	54,610	51,064	3,546
Treasurer	265,012	267,672	258,474	9,198
Central accounting	393,888	410,381	387,252	23,129
Board of Equalization	3,000	3,000	643	2,357
Total general and financial administration	<u>\$ 1,289,924</u>	<u>\$ 1,340,104</u>	<u>\$ 1,243,135</u>	<u>\$ 96,969</u>
Board of elections:				
Electoral board and officials	\$ 70,734	\$ 77,088	\$ 84,261	\$ (7,173)
Total general government administration	<u>\$ 1,406,286</u>	<u>\$ 1,767,790</u>	<u>\$ 1,679,198</u>	<u>\$ 88,592</u>
Judicial administration:				
Courts:				
Circuit court	\$ 10,000	\$ 10,000	\$ 9,919	\$ 81
General district court	5,000	5,000	4,808	192
Magistrates office	5,000	5,000	1,377	3,623
Clerk of the circuit court	37,115	37,115	36,092	1,023
Sheriff (court)	51,184	51,184	51,184	-
Total courts	<u>\$ 108,299</u>	<u>\$ 108,299</u>	<u>\$ 103,380</u>	<u>\$ 4,919</u>
Commonwealth's attorney:				
Commonwealth's attorney	\$ 20,000	\$ 20,000	\$ 20,000	-
Total judicial administration	<u>\$ 128,299</u>	<u>\$ 128,299</u>	<u>\$ 123,380</u>	<u>\$ 4,919</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,282,884	\$ 1,323,918	\$ 1,257,161	\$ 66,757
Sheriff	205,000	205,000	205,000	-
Victim witness	56,621	57,753	49,732	8,021
E-911 wireless grant	724,582	1,304,827	777,111	527,716
School resource officer	58,262	59,101	58,598	503
Seizure/forfeiture funds	38,000	38,000	9,741	28,259
Total law enforcement and traffic control	<u>\$ 2,365,349</u>	<u>\$ 2,988,599</u>	<u>\$ 2,357,343</u>	<u>\$ 631,256</u>
Fire and rescue services:				
Volunteer fire department	\$ 190,985	\$ 357,234	\$ 192,142	\$ 165,092
Ambulance service	125,021	129,853	124,245	5,608
Total fire and rescue services	<u>\$ 316,006</u>	<u>\$ 487,087</u>	<u>\$ 316,387</u>	<u>\$ 170,700</u>

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>General Fund: (Continued)</b>				
Public safety: (Continued)				
Correction and detention:				
Sheriff (jail)	\$ 142,795	\$ 142,795	\$ 142,795	\$ -
Probation office	6,000	6,000	2,832	3,168
Total correction and detention	<u>\$ 148,795</u>	<u>\$ 148,795</u>	<u>\$ 145,627</u>	<u>\$ 3,168</u>
Inspections:				
Building	\$ 89,364	\$ 90,868	\$ 83,884	\$ 6,984
Other protection:				
Animal control	\$ 103,455	\$ 111,243	\$ 105,613	\$ 5,630
Medical examiner	100	100	20	80
Total other protection	<u>\$ 103,555</u>	<u>\$ 111,343</u>	<u>\$ 105,633</u>	<u>\$ 5,710</u>
Total public safety	<u>\$ 3,023,069</u>	<u>\$ 3,826,692</u>	<u>\$ 3,008,874</u>	<u>\$ 817,818</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 118,792	\$ 120,260	\$ 112,219	\$ 8,041
Street department	1,049,224	1,043,615	955,793	87,822
Snow and ice removal	42,219	42,219	15,730	26,489
Traffic engineering	104,021	105,146	95,217	9,929
Street lights	159,500	170,730	171,562	(832)
Total maintenance of highways, streets, bridges & sidewalks	<u>\$ 1,473,756</u>	<u>\$ 1,481,970</u>	<u>\$ 1,350,521</u>	<u>\$ 131,449</u>
Sanitation and waste removal:				
Refuse collection	\$ 281,386	\$ 297,547	\$ 291,793	\$ 5,754
Refuse disposal	367,625	370,843	347,829	23,014
Street cleaning	1,550	1,550	-	1,550
Landfill closure	12,500	12,500	8,482	4,018
Litter control grant	6,300	6,300	4,876	1,424
Recycling program	27,000	27,000	27,000	-
Total sanitation and waste removal	<u>\$ 696,361</u>	<u>\$ 715,740</u>	<u>\$ 679,980</u>	<u>\$ 35,760</u>
Maintenance of general buildings and grounds:				
General properties	\$ 365,104	\$ 365,104	\$ 239,163	\$ 125,941
Total public works	<u>\$ 2,535,221</u>	<u>\$ 2,562,814</u>	<u>\$ 2,269,664</u>	<u>\$ 293,150</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 97,790	\$ 97,790	\$ 97,790	\$ -
Alleghany Highlands free clinic	7,000	7,000	7,000	-
Total health	<u>\$ 104,790</u>	<u>\$ 104,790</u>	<u>\$ 104,790</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, 2012

<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>
<b>General Fund: (Continued)</b>				
Health and welfare: (Continued)				
Welfare:				
T. A. P.	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Safehomes, Inc.	2,000	2,000	2,000	-
Jackson river enterprise	12,000	12,000	12,000	-
Second harvest food bank	1,100	1,100	1,100	-
Alleghany Highlands CSA foster care	910,208	1,294,678	1,109,289	185,389
HOPE, Inc.	500	500	500	-
Social Services	678,365	678,365	495,460	182,905
Other welfare	7,500	7,500	31,602	(24,102)
Total welfare	<u>\$ 1,616,673</u>	<u>\$ 2,001,143</u>	<u>\$ 1,656,951</u>	<u>\$ 344,192</u>
Total health and welfare	<u>\$ 1,741,463</u>	<u>\$ 2,125,933</u>	<u>\$ 1,781,741</u>	<u>\$ 344,192</u>
Education:				
Other instructional costs:				
Contributions to Community College	\$ 1,500	\$ 1,500	\$ 1,500	-
Contribution to City School Board	4,119,613	4,196,039	4,131,189	64,850
Total education	<u>\$ 4,121,113</u>	<u>\$ 4,197,539</u>	<u>\$ 4,132,689</u>	<u>\$ 64,850</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 852,903	\$ 913,748	\$ 872,292	\$ 41,456
Pedestrian/bicycle improvements	-	472,600	461,963	10,637
Total parks and recreation	<u>\$ 852,903</u>	<u>\$ 1,386,348</u>	<u>\$ 1,334,255</u>	<u>\$ 52,093</u>
Cultural enrichment:				
Senior center	\$ 119,827	\$ 81,827	\$ 76,525	\$ 5,302
Cemetery	171,726	169,558	153,110	16,448
League of older Americans	1,691	1,691	1,691	-
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	-
Hotel Collins Streetscape	-	224,274	-	224,274
Total cultural enrichment	<u>\$ 308,244</u>	<u>\$ 492,350</u>	<u>\$ 246,326</u>	<u>\$ 246,024</u>
Library:				
Contribution to regional library	\$ 110,598	\$ 110,598	\$ 110,598	-
Total parks, recreation, and cultural	<u>\$ 1,271,745</u>	<u>\$ 1,989,296</u>	<u>\$ 1,691,179</u>	<u>\$ 298,117</u>
Community development:				
Planning and community development:				
Planning commission	\$ 7,945	\$ 7,945	\$ 4,996	\$ 2,949
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	612	612	159	453
Economic development	40,766	41,266	41,266	-
Total planning and community development	<u>\$ 69,323</u>	<u>\$ 69,823</u>	<u>\$ 66,421</u>	<u>\$ 3,402</u>
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, 2012**

<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>
<b>General Fund: (Continued)</b>				
Community development: (Continued)				
Cooperative extension program:				
Extension office	\$ 5,000	\$ 5,000	\$ 2,204	\$ 2,796
Total community development	\$ 76,323	\$ 76,823	\$ 70,625	\$ 6,198
Nondepartmental:				
Contingencies	\$ 175,907	\$ 56,012	\$ -	\$ 56,012
Debt service:				
Principal retirement	\$ 532,024	\$ 532,024	\$ 532,023	\$ 1
Interest and other fiscal charges	1,166,119	1,166,119	1,024,415	141,704
Total debt service	\$ 1,698,143	\$ 1,698,143	\$ 1,556,438	\$ 141,705
Total General Fund	\$ 16,177,569	\$ 18,429,341	\$ 16,313,788	\$ 2,115,553
<b>Debt Service Fund:</b>				
<b>School Debt Service Fund:</b>				
Debt service:				
Principal retirement	\$ 2,421,970	\$ 2,568,778	\$ -	\$ 2,568,778
Total School Debt Service Fund	\$ 2,421,970	\$ 2,568,778	\$ -	\$ 2,568,778
<b>Capital projects fund:</b>				
<b>School Construction Fund:</b>				
Debt Service				
Bond issuance costs	\$ -	\$ 110,350	\$ 110,350	\$ -
Total Debt Service	\$ -	\$ 110,350	\$ 110,350	\$ -
Total School Construction Fund	\$ -	\$ 110,350	\$ 110,350	\$ -
Total Primary Government	\$ 16,177,569	\$ 18,539,691	\$ 16,424,138	\$ 2,115,553

City of Covington, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2012

<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>
<b>Discretely Presented Component Unit - School Board:</b>				
<b>School Operating Fund:</b>				
Education:				
Administration of schools:				
Attendance and health services	\$ 340,645	\$ 319,482	\$ 319,023	\$ 459
Executive administration services	290,835	296,648	290,872	5,776
Total administration of schools	<u>\$ 631,480</u>	<u>\$ 616,130</u>	<u>\$ 609,895</u>	<u>\$ 6,235</u>
Instruction costs:				
instruction costs	\$ 7,697,304	\$ 7,816,968	\$ 7,800,147	\$ 16,821
School food services:				
Administration of school food program	\$ 719,275	\$ 782,920	\$ 507,723	\$ 275,197
Operating costs:				
Pupil transportation	\$ 291,547	\$ 271,536	\$ 320,702	\$ (49,166)
Operation and maintenance of school plant	1,016,980	963,842	864,651	99,191
Facilities	235,880	187,362	258,573	(71,211)
Technology	153,600	169,971	169,970	1
Total operating costs	<u>\$ 1,698,007</u>	<u>\$ 1,592,711</u>	<u>\$ 1,613,896</u>	<u>\$ (21,185)</u>
Total education	<u>\$ 10,746,066</u>	<u>\$ 10,808,729</u>	<u>\$ 10,531,661</u>	<u>\$ 277,068</u>
Capital projects:				
School capital projects	\$ 357,500	\$ 371,263	\$ 70,148	\$ 301,115
Total Discretely Presented Component Unit - School Board	<u>\$ 11,103,566</u>	<u>\$ 11,179,992</u>	<u>\$ 10,601,809</u>	<u>\$ 578,183</u>

## **Other Statistical Section**

Table 1

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Water Department	Sewer Department	Total
2011-12	\$ 1,438,892	\$ 123,380	\$ 3,021,155	\$ 2,700,887	\$ 1,758,368	\$ 5,874,905	\$ 1,212,345	\$ 70,625	\$ 1,052,480	\$ 1,173,197	\$ 1,066,781	\$ 19,493,015
2010-11	1,534,458	134,998	2,955,125	3,425,828	1,765,361	4,683,660	1,307,295	79,316	1,198,756	1,213,104	994,309	19,292,210
2009-10	1,483,169	122,901	2,819,474	1,913,115	1,700,110	3,825,555	1,320,420	99,201	1,296,643	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	975,235	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	2,507,795	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

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

Fiscal Year	PROGRAM REVENUES					GENERAL REVENUES					Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Contributions Not Restricted to Specific Programs	Gain on Sale of Capital Assets		
2011-12	\$ 4,071,784	\$ 2,614,381	\$ 1,319,432	\$ 7,225,937	\$ 3,668,311	\$ 49,372	\$ 48,748	\$ 852,781	\$ -	\$ 19,850,746	
2010-11	4,170,379	3,304,823	684,814	7,184,718	3,445,125	66,865	66,814	917,297	7,011	19,847,846	
2009-10	4,165,888	2,618,316	75,794	7,051,615	3,170,222	66,549	186,667	896,005	-	18,231,066	
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	803,694	-	16,237,270	

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
2011-12	\$ 1,679,198	\$ 123,380	\$ 3,008,874	\$ 2,269,664	\$ 1,781,741	\$ 10,533,161	\$ 1,691,179	\$ 70,625	\$ 70,148	\$ -	\$ 1,725,188	\$ 22,953,158
2010-11	1,428,913	134,998	2,715,021	2,527,319	1,790,260	10,189,721	1,280,563	79,316	175,538	11,192	1,808,852	22,141,693
2009-10	1,334,414	122,901	2,955,446	2,696,909	1,724,165	9,833,368	1,484,555	99,201	869,412	-	1,801,162	22,921,533
2008-09	1,391,596	61,292	2,852,747	2,825,693	1,514,709	10,524,500	1,390,990	110,214	13,001,350	20,118	1,562,846	35,256,055
2007-08	1,433,034	78,185	2,589,022	3,877,615	1,397,869	10,692,037	1,329,602	107,562	9,022,652	816	1,548,023	32,076,417
2006-07	1,425,506	94,087	2,582,309	2,985,907	1,338,133	10,062,235	2,237,175	132,584	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

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

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

(3) For fiscal year 2009-10, excludes bond anticipation refunding of \$15,000,000 and related bond issuance cost of \$232,400. For fiscal year 2011-12, excludes bond issuance cost of \$110,350.

**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
2011-12	\$ 7,227,463	\$ 3,668,311	\$ 30,126	\$ 12,163	\$ 50,459	\$ 1,142,389	\$ 308,716	\$ 80,095	\$ 9,962,710	\$ 22,482,432
2010-11	7,149,152	3,445,125	23,668	17,975	68,253	1,122,088	292,012	60,833	10,053,004	22,232,110
2009-10	7,058,693	3,170,222	9,584	33,647	67,929	946,815	213,963	175,928	9,813,945	21,490,726
2008-09	6,915,610	3,396,974	10,169	42,445	240,204	1,121,997	178,158	288,769	9,786,230	21,980,556
2007-08	6,949,940	3,533,607	15,574	32,644	575,228	1,095,665	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	29,583	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

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

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

Table 5

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

Fiscal Year	Total Tax Levy (1,3)	Current Tax Collections (1,3)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1,2)	Percent of Delinquent Taxes to Tax Levy
2011-12	\$ 7,683,731	\$ 7,605,442	98.98%	\$ 94,049	\$ 7,699,491	100.21%	\$ 453,285	5.90%
2010-11	7,626,798	7,545,962	98.94%	80,400	7,626,362	99.99%	427,671	5.61%
2009-10	7,535,231	7,396,523	98.16%	130,551	7,527,074	99.89%	439,189	5.83%
2008-09	7,383,021	7,300,339	98.88%	67,143	7,367,482	99.79%	407,773	5.52%
2007-08	7,412,981	6,803,543	91.78%	73,600	6,877,143	92.77%	512,105	6.91%
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%

(1) Exclusive of penalties and interest.

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

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

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

Fiscal Year	Real Estate (1)	Personal Property and Mobile Homes	Machinery and Tools	Public Utility (2)			Total
				Real Estate	Real Estate	Personal Property	
2011-12	\$ 271,839,495	\$ 26,780,775	\$ 76,975,965	\$ 23,878,024	\$ 18,249	\$ 399,492,508	
2010-11	283,502,400	26,077,480	76,660,640	22,727,986	89,861	409,058,367	
2009-10	282,219,900	24,892,990	76,096,510	21,401,377	35,464	404,646,241	
2008-09	281,865,500	22,555,370	75,747,170	21,429,843	72,863	401,670,746	
2007-08	280,613,600	22,563,190	76,476,640	19,700,864	7,786	399,362,080	
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	

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

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

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

Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
2011-12	\$ 0.69	\$ 0.69	\$ 5.60	\$ 5.52
2010-11	0.66	0.66	5.60	5.52
2009-10	0.66	0.66	5.60	5.52
2008-09	0.66	0.66	5.60	5.52
2007-08	0.66	0.66	5.60	5.52
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

(1) Per \$100 of assessed value.

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2011-12	5,961	\$ 399,493	\$ 35,499,359	8.89%	\$ 5,955
2010-11	5,961	409,058	31,830,269	7.78%	5,340
2009-10	6,303	404,646	31,497,499	7.78%	4,997
2008-09	6,303	401,671	32,624,875	8.12%	5,176
2007-08	6,303	399,362	33,812,244	8.47%	5,364
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

(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.

**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
2011-12	\$ 532,023	\$ 1,193,165	\$ 1,725,188	\$ 22,953,158	7.52%
2010-11	551,540	1,257,312	1,808,852	22,141,693	8.17%
2009-10	569,703	1,231,459	1,801,162	22,921,533	7.86%
2008-09	668,841	894,005	1,562,846	35,256,055	4.43%
2007-08	650,800	237,312	888,112	32,076,417	2.77%
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%

(1) Includes General fund of the Primary Government and Operating Fund of the Discretely Presented Component Unit - School Board.

(2) Excludes bond issuance and other costs.

(3) Excludes refinancing of bond anticipation note.

## CITY OF COVINGTON

## Computation of Legal Debt Margin

At June 30, 2012

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Legal Debt Limit:		
10% of Assessed Value of Taxable Real Estate	\$271,839,495	\$ 27,183,950
Deduct:		
Debt Payable		24,368,951
Legal Margin for Creation of Additional Debt		<u>\$ 2,814,999</u>

CITY OF COVINGTON, VIRGINIA  
Schedule of Joint Costs with the County of Alleghany  
For the Year Ended June 30, 2012

Expenditures:	
Judicial Administration:	
Courts:	
Circuit court	\$ 81,876
General district court	17,169
Clerk of the circuit court	411,601
Sheriff	409,506
Commonwealth's attorney:	
Commonwealth's attorney	498,954
Public Safety:	
Law enforcement and traffic control:	
Sheriff	1,812,133
Correction and detention:	
Sheriff	1,860,996
Courthouse security:	
Courthouse security	75,604
Public Works:	
Maintenance of general buildings and grounds:	
General properties	88,170
Jail	237,451
Total Expenditures	\$ 5,493,460
Revenues:	
General Fund:	
Revenues from local sources:	
Fines and forfeitures	\$ 61,002
Sales of materials and supplies	2,360
Charges for services:	
Correction and detention	1,824
Prisoner payments	20,277
Courthouse maintenance	18,369
SSA bounty payments	4,000
Charges for Commonwealth's attorney and court appointed attorney	4,442
Courthouse security	82,079
Recovered costs:	
Salary of Judge's secretary	1,836
Bath Co. Share-Jail	91,184
Care of prisoners - Commonwealth	182,467
Miscellaneous Revenue	10,586
National forest	17,000
District court postage	6,004

**CITY OF COVINGTON, VIRGINIA**  
**Schedule of Joint Costs with the County of Alleghany**  
**For the Year Ended June 30, 2012**

Revenues: (continued)		
General Fund: (continued)		
Revenue from the Commonwealth:		
Categorical aid:		
Shared Expenses:		
Commonwealth's attorney	\$	354,212
Sheriff		1,904,704
Clerk		293,903
Other Categorical Aid:		
DCJ grants		1,517
Revenue from the Federal Government:		
DMV grants		21,919
Total Revenues	\$	3,079,685
Net Expenditures applicable to County and City	\$	2,413,775

	Population	Percent of Total	Total
Allocation:			
County's share of net expenditures	16,250	73.16%	\$ 1,765,918
County's share of audit cost			5,801
Total of County's share			\$ 1,771,719
City's share of net expenditures	5,961	26.84%	\$ 647,857
City's share of audit cost			2,128
Total of City's share			\$ 649,985

Reconciliation of Account with County	General	Magistrate	Probation	Total
Balance due to County (City) at June 30, 2011	\$ 50,045	\$ 1,185	\$ 1,299	\$ 52,529 *
Less:				
Remittances by City based on budget estimates for FY 2012	(564,586)	(1,377)	(1,778)	(567,741)
City's share of expenditures	649,985	2,301	2,320	654,606
Balance due to County (City) at June 30, 2012	\$ 135,444	\$ 2,109	\$ 1,841	\$ 139,394

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

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**COMPLIANCE SECTION**

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# 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, 2012, which collectively comprise the City of Covington, Virginia's basic financial statements and have issued our report thereon dated December 11, 2012. 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

Management of City of Covington, Virginia is responsible for establishing and maintaining effective 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 [2012-1]. 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 2012-2.

We noted certain matters that we reported to management of the City of Covington, Virginia in a separate letter dated December 11, 2012.

The City of Covington, Virginia's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Covington, Virginia's 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, Farmer, Co. Associates*

Blacksburg, Virginia  
December 11, 2012

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

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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, 2012. 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, 2012.

### 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 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, Faimer, Cox Associates*

Blacksburg, Virginia

December 11, 2012

CITY OF COVINGTON, VIRGINIA  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2012

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>Commonwealth of Virginia Department of Agriculture and Consumer Services:</i>			
Child Nutrition Cluster:			
Food Distribution-Schools (Note 3)	10.555	Not applicable	\$ 22,131
<i>Department of Education:</i>			
Child Nutrition Cluster:			
National School Lunch Program	10.555	40623	<u>208,800</u> \$ 230,931
<i>Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	40591	78,415
Total Department of Agriculture			<u>\$ 309,346</u>
<i>DEPARTMENT OF EDUCATION:</i>			
Pass Through Payments:			
<i>Department of Education:</i>			
Title I - Grants to Local Educational Agencies	84.010	42901	\$ 270,185
Special Education Cluster:			
Special Education - Grants to States	84.027	43071	227,482
ARRA - Special Education - Grants to States	84.391	61245	10,264
Education Technology State Grants	84.318	61600	16,005
Improving Teacher Quality - State Grants	84.367	61480	61,914
ARRA - Education Jobs Funds	84.410	62700	217,244
Total Department of Education			<u>\$ 803,094</u>
<i>DEPARTMENT OF JUSTICE:</i>			
Pass Through Payments:			
<i>Department of Criminal Justice Services:</i>			
Crime Victim Assistance	16.575	10VAGX0095	\$ 37,674
Drug Control and System Improvements Grant Program	16.579	Not applicable	1,328
Total Department of Justice			<u>\$ 39,002</u>
<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	\$ 9,963
Alcohol Open Container Requirements	20.607	154AL-201 50374 3994	5,592
<i>Virginia Department of Transportation (VDOT):</i>			
Highway Planning and Construction	20.205	EN04107124 EN02107152	478,559
Total Department of Transportation			<u>\$ 494,114</u>

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**CITY OF COVINGTON, VIRGINIA**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2012**

Federal Grantor/ State Pass-Through Grantee/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass Through Payments:			
<i>Department of Social Services:</i>			
Promoting Safe and Stable Families	93.556	0950110,0950111	\$ 4,107
Temporary Assistance for Needy Families	93.558	0400110,0400111	8,081
Child Care and Development Cluster:			
Child Care and Development Block Grant	93.575	0770110	17,274
Child Care Mandatory and Matching Funds of the Care and Development Fund	93.596	0760110,0760111	6,377
Chafee Education and Training Vouchers Program	93.599	9160110	1,166
Foster Care - Title IV-E	93.658	1100110,1100111	61,645
Adoption Assistance	93.659	1120110,1120111	38,756
Social Services Block Grant	93.667	1000110,1000111	23,897
Chafee Foster Care Independence Program	93.674	915110,9150111	2,562
Total Department of Health and Human Services			<u>\$ 163,865</u>
 Total Expenditures of Federal Awards			 <u>\$ 1,809,421</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, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City of Covington, Virginia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Covington, Virginia.

**NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

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

**NOTE 3--FOOD DISTRIBUTION:**

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2012, the Covington City School Board held food commodities totaling \$7,448 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	<u>\$ 696,981</u>
Component Unit Schools:	
School Operating Fund	<u>\$ 1,112,440</u>
 Total Federal Expenditures per Basic Financial Statements	 <u>\$ 1,809,421</u>

City of Covington, Virginia

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

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**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:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster
20.205	Highway Planning and Construction
84.410	ARRA - Education Jobs 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 and Questioned Costs  
Year Ended June 30, 2012

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Section II - Financial Statement Findings

2012-1

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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.

2012-2

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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 of the City has turned all CSA case files over to the Alleghany County Department of Social Services. The case files that they have been responsible for are being properly documented.

**City of Covington, Virginia**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

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**Section III - Federal Award Findings and Questioned Costs**

None

**Section IV - Status of Prior Audit Findings and Questioned Costs**

2011-1 and 2011-2 are recurring in the current year.