

CITY OF COVINGTON, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

CITY OF COVINGTON, VIRGINIA
 FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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INTRODUCTORY SECTION

CITY OF COVINGTON, VIRGINIA

CITY COUNCIL

Thomas H. Sibold, Jr., Mayor
David S. Crosier, Vice-Mayor
Stephanie R. Clark
Allan Tucker
William B. Zimmerman, Jr.

CITY SCHOOL BOARD

Tammy Scruggs-Duncan, Chair
Cynthia Bennett, Vice-Chair
Ronald C. Morrisette
Eddy Clemons
Robert C. Garten

OTHER OFFICIALS

City Manager Joseph B. Broughman
City Finance Director David Bryant, Jr.
City Attorney Theresa J. Fontana
Commissioner of the Revenue Cathy M. Kimberlin
City Treasurer Eunice Dressler Clark
Superintendent of Schools Thomas E. Long
Chief of Police Joseph B. Broughman

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Covington, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund of the City of Covington, Virginia, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 21 to the financial statements, in 2015, the City adopted new accounting guidance, GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 5-14, 81, and 82-87 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Covington, Virginia, Virginia's basic financial statements. The introductory section, other supplementary information, and statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Other Information (continued)

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

The introductory section and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015, on our consideration of the City of Covington, Virginia, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Covington, Virginia's internal control over financial reporting and compliance.

Robinson, Turner, Co. Associates

Blacksburg, Virginia
December 11, 2015

CITY OF COVINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR 2015 (JULY 1, 2014 – JUNE 30, 2015)

As management of the City of Covington, we offer readers of the City of Covington's financial statements this narrative overview and analysis of the financial activities of the City of Covington for the fiscal year ended June 30, 2015.

Financial Highlights

- In Governmental Activities, the liabilities and deferred inflows of resources of the City of Covington exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$(4,672,747) "total net position". The unrestricted net position as the end of fiscal year 2015 is \$(7,494,249). These negative balances are driven primarily by *unfunded liabilities* including landfill closure/post closure costs, compensated absences costs, OPEB obligations and net pension liability totaling \$10,199,959.
- The City of Covington's total net position (Governmental Activities & Business Type Activities) increased \$1,113,495 from End of Year FY 2014 to End of Year FY 2015.
- At the close of the current fiscal year, the City of Covington's governmental funds reported an *unassigned* general fund balance of \$2,663,258 for an increase of \$478,512 in comparison with the prior fiscal year.
- At the close of the current fiscal year, the City of Covington's governmental funds reported combined fund balances of \$5,188,302, an increase of \$1,868,634 in comparison with the prior fiscal year. This change was primarily driven by increased revenue from general property taxes of \$1,052,859 from last fiscal year, and increased revenue from charges for services of \$429,990 from last fiscal year.
- At the end of the current fiscal year, total fund balance (the total of the *committed*, *restricted*, and *unassigned* components of *fund balance*) for the general fund was \$4,174,727, or approximately 25.3% of total general fund expenditures.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

The City of Covington maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the school/capital project fund, and the school debt service reserve fund, which are considered to be major funds.

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

The basic governmental fund financial statements can be found on Exhibits 3-9 of this report.

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

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

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

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

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

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City of Covington, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$7,254,635 at the close of the most recent fiscal year.

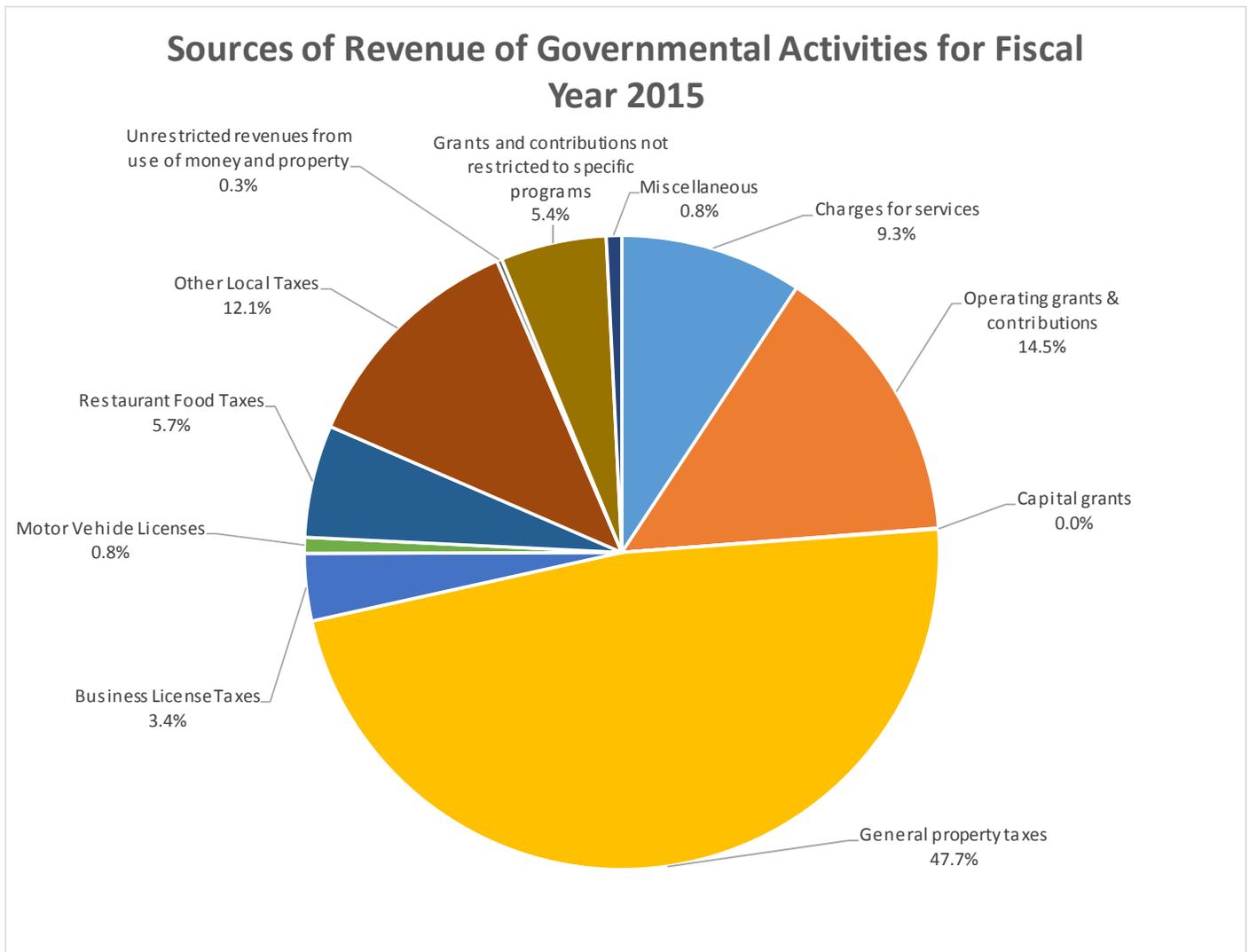
City of Covington's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets:						
Current and other assets	\$ 8,313,059	\$ 7,184,259	\$ 8,635,517	\$ 9,534,561	\$ 16,948,576	\$ 16,718,820
Capital assets	\$ 27,217,119	\$ 27,668,832	\$ 22,191,549	\$ 20,084,717	\$ 49,408,668	\$ 47,753,549
Total Assets	\$ 35,530,178	\$ 34,853,091	\$ 30,827,066	\$ 29,619,278	\$ 66,357,244	\$ 64,472,369
Deferred Outflows						
of Resources	\$ 735,204	\$ 335,299	\$ 103,119	\$ -	\$ 838,323	\$ 335,299
Liabilities:						
Current liabilities	\$ 2,160,150	\$ 2,613,564	\$ 2,080,339	\$ 1,550,105	\$ 4,240,489	\$ 4,163,669
Long-term liabilities	\$ 35,858,701	\$ 30,853,131	\$ 16,728,571	\$ 15,725,754	\$ 52,587,272	\$ 46,578,885
Total Liabilities	\$ 38,018,851	\$ 33,466,695	\$ 18,808,910	\$ 17,275,859	\$ 56,827,761	\$ 50,742,554
Deferred Inflows						
of Resources	\$ 2,919,278	\$ 2,008,494	\$ 193,893	\$ -	\$ 3,113,171	\$ 2,008,494
Net Position:						
Net investment						
in capital assets	\$ 1,837,024	\$ 3,354,323	\$ 9,503,956	\$ 8,984,782	\$ 11,340,980	\$ 12,339,105
Restricted	\$ 984,478	\$ 121,653	\$ 648,337	\$ 647,155	\$ 1,632,815	\$ 768,808
Unrestricted	\$ (7,494,249)	\$ (3,762,775)	\$ 1,775,089	\$ 2,711,482	\$ (5,719,160)	\$ (1,051,293)
Total Net Position	\$ (4,672,747)	\$ (286,799)	\$ 11,927,382	\$ 12,343,419	\$ 7,254,635	\$ 12,056,620

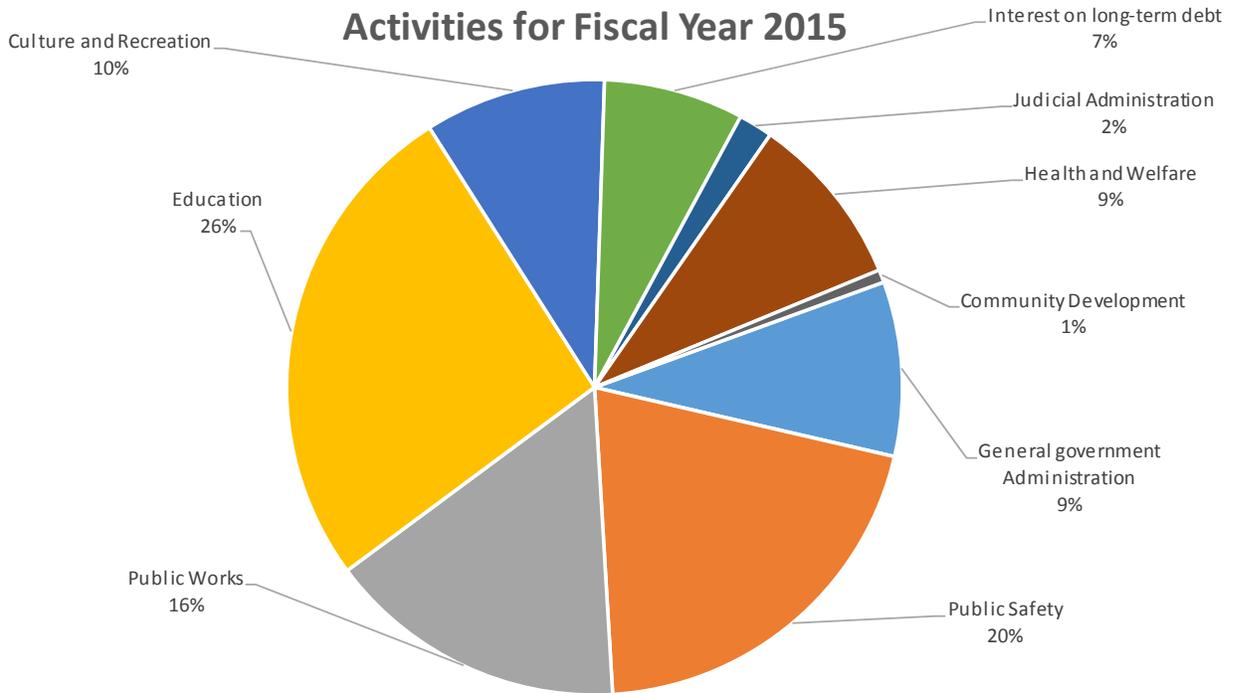
The City of Covington’s net position reflects its investment in capital assets of \$11,340,980 (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City of Covington uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City of Covington’s investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Covington’s net position represents resources that are subject to external restrictions on how they may be used. These restrictions total \$1,632,815 and are comprised of \$121,653 of unspent grants and \$862,825 of unspent capital lease proceeds in the Governmental Activities and \$648,337 restricted for debt service and bond covenant in the Business-Type Activities. The remaining balance of \$(5,719,160) is unrestricted and may be used to meet the government’s ongoing obligations to its citizens and creditors based on relation to future unfunded liabilities as noted in the Financial Highlights section that was previously presented.

At the end of the current fiscal year, the City of Covington is able to report a positive balance in the total net position for the government as a whole based on Business-Type Activities Net Position offsetting the negative balance on the Governmental Activities side.



Total Functional Expenses of Governmental Activities for Fiscal Year 2015



The City of Covington’s total net position increased \$1,113,495 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities: During the current fiscal year, net position for governmental activities increased \$518,285 from the prior fiscal year for an ending balance of \$(4,672,747). While the current economic conditions certainly had an impact on the City of Covington, expenses in General Government Administration and Public Works also reduced during the fiscal year. Expenses increased in Public Safety, Education, Culture and Recreation, Interest on Long Term Debt, Judicial Administration, Health and Welfare, and Community Development. The overall expenditure increase of \$633,334 was offset by Revenue increases of \$1,193,063 from fiscal year 2014 to fiscal year 2015. Charges for Services increased by \$432,047 and Property Taxes increased by \$948,686 while Miscellaneous Revenue was impacted with the greatest decline at \$(166,224).

Business-type Activities: For the City of Covington’s business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$11,927,382. The total increase in net position for business-type activities (water and sanitation/sewer) was \$595,210 or 5.25% from the prior fiscal year. The increase is due primarily to normal business activity, however when comparing to the increase in net position for fiscal year 2014 of \$1,520,114 it is noted that there were substantially fewer capital grants and contributions received in fiscal year 2015, a reduction of \$557,901.

Statement of Activities
June 30, 2015 and 2014

	Governmental Activities		Business Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 1,538,940	\$ 1,106,893	\$ 3,470,543	\$ 3,261,665	\$ 5,009,483	\$ 4,368,558
Operating grants & contributions	2,405,973	2,442,710			2,405,973	2,442,710
Capital grants & contributions	8,136	27,230	47,246	605,147	55,382	632,377
General revenues:						
General property taxes	7,917,708	6,969,022	-	-	7,917,708	6,969,022
Other taxes	3,656,977	3,660,422	-	-	3,656,977	3,660,422
Unrestricted revenues from use of money and property	43,680	-	7,473	8,903	51,153	8,903
Grants and contributions not restricted to specific programs	893,422	899,272	-	-	893,422	899,272
Miscellaneous	131,239	297,463	9,453	15,884	140,692	313,347
Total revenues	\$ 16,596,075	\$ 15,403,012	\$ 3,534,715	\$ 3,891,599	\$ 20,130,790	\$ 19,294,611
Expenses:						
General government Administration	\$ 1,509,994	\$ 1,569,154	\$ -	\$ -	\$ 1,509,994	\$ 1,569,154
Public Safety	3,366,041	3,152,116	-	-	3,366,041	3,152,116
Public Works	2,598,684	2,702,655	-	-	2,598,684	2,702,655
Education	4,304,188	4,064,623	-	-	4,304,188	4,064,623
Culture and Recreation	1,568,825	1,515,073	-	-	1,568,825	1,515,073
Interest on long-term debt	1,211,614	1,135,754	-	-	1,211,614	1,135,754
Judicial Administration	295,423	164,988	-	-	295,423	164,988
Health and Welfare	1,498,921	1,448,418	-	-	1,498,921	1,448,418
Community Development	110,143	77,718	-	-	110,143	77,718
Water	-	-	1,093,836	1,114,862	1,093,836	1,114,862
Sanitation	-	-	1,459,626	1,256,623	1,459,626	1,256,623
Total expenses	\$ 16,463,833	\$ 15,830,499	\$ 2,553,462	\$ 2,371,485	\$ 19,017,295	\$ 18,201,984
Increase (decrease) in net position	\$ 132,242	\$ (427,487)	\$ 981,253	\$ 1,520,114	\$ 1,113,495	\$ 1,092,627
Transfers	386,043	370,888	(386,043)	(370,888)	-	-
Increase (decrease) in net position	\$ 518,285	\$ (56,599)	\$ 595,210	\$ 1,149,226	\$ 1,113,495	\$ 1,092,627
Net Position - beginning (restated)	(5,191,032)	(230,200)	11,332,172	11,194,193	6,141,140	10,963,993
Ending net position	\$ (4,672,747)	\$ (286,799)	\$ 11,927,382	\$ 12,343,419	\$ 7,254,635	\$ 12,056,620

Note: Due to the implementation in fiscal year 2015 of Accounting Pronouncements made by the Governmental Accounting Standards Board, beginning net position was restated. However, due to lack of available information to categorize these changes, comparative tables included above do not reflect the detail of this restatement in the fiscal year 2014 data. The statements causing this impact were GASB No. 68, Accounting and Financial Reporting for Pensions, and GASB No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of Statement No. 68. This accounts for the table reporting a lower restated net position as compared to the previous year's ending net position.

Financial Analysis of Governmental Funds

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

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

that has been delegated authority to assign resources for use for particular purposes by the City of Covington's Council.

At June 30, 2015, the City of Covington's governmental funds reported combined fund balances of \$5,188,302, an increase of \$1,868,634. Approximately 51.3% of this amount (\$2,663,258) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either:

- 1) Non-Spendable – Amounts that are not in spendable form (such as inventory, pre-paid items, or long-term receivables). Of the City's total fund balance, \$526,991 is considered non-spendable.
- 2) Restricted – Amounts constrained for specific purposes by their providers (such as grantees, bondholders, higher levels of government), constitutional provisions, or by enabling legislation. Of the City's total fund balance, \$1,997,222 is considered restricted.
- 3) Committed – Amounts constrained for specific purposes by the government itself, using its highest level of decision making authority. Of the City's total fund balance, \$831 is considered committed.
- 4) Assigned – Amounts a government intends to use for a specific purpose, where intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Of the City's total fund balances, \$0 is considered assigned.

The General Fund is the chief operating fund of the City of Covington. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,663,258 while total fund balance was \$4,174,727. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 16.1 percent of total general fund expenditures, while total fund balance represents approximately 25.3 percent of that same amount.

The unassigned fund balance of the City of Covington's general fund increased \$478,512 during the current fiscal year.

The portion of fund balance restricted for unspent capital leases had a net increase of \$862,825 during the current fiscal year. These funds are to be utilized for the purchase of a new financial software package, garbage truck, and mini excavator to be used in city operations.

The School Construction Fund (2007 IDA Lease Revenue Bond Reserve) increased \$61 to \$1,012,744 during the fiscal year closing June 30, 2015. This fund, along with the general fund and school debt service reserve fund comprise the total fund balance of \$5,188,302. The City will acquire the services of a registered municipal advisor to explore improved returns on the IDA Bond Reserve. In the new fiscal year VML VACoRP will be handling advisory services for the city.

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

Both the Water and Sewer Funds enjoyed an increase in total net position, with the Water Fund increasing \$455,188 and the Sewer Fund increasing \$140,022. Unrestricted net position of the Water Fund at the end of the fiscal year was \$582,970, a decrease of \$1,294,730; and the Sewer Fund was \$1,192,119, an increase of \$358,337.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year the budgetary expenditures were amended by \$3,241,303 for the General Fund. In spite of this, actual expenditures compared to the budget showed a positive variance of \$2,832,103. This was mainly due to the community development project on the Hotel Collins property not beginning in fiscal year 2015 as anticipated. Also, capital leases were issued late in the fiscal year, but the majority was not expended by year-end.

Final budget compared to actual results. The most significant differences between estimated revenues and actual revenues were as follows:

General Property Taxes \$299,274, Other Local Taxes \$27,477, Charges for Services \$119,646, Intergovernmental (Commonwealth) \$(212,054), and Intergovernmental (Federal) \$(619,950).

The largest shortfall above, Intergovernmental (Federal) is directly impacted by the fact that the Hotel Collins project did not break ground in fiscal year 2015. While significant planning work has been done, the revenue stream from the transportation enhancement grant of \$485,968 in the budget was not realized due to this. This is directly offset by the lack of community development expenditures not materializing due to no ground breaking in fiscal year 2015.

The second largest shortfall above, Intergovernmental (Commonwealth), is attributed to a significant decline in welfare and CSA payments coming in from the Commonwealth of Virginia. Actual Revenues as they relate to these items did remain steady with actual expenditures though.

The City of Covington has worked very hard through the years to provide exceptional recreational activities, facilities, and cultural activities for the residents of the City, Alleghany County, and those that visit to compete athletically in the park system, or visit for a concert/arts function. General Fund monies have been expended and proportionally the meals taxes generated have made a significant contribution to overall revenue generation efforts.

Review of actual revenues and expenditures indicates that actual revenues for the General Fund were \$16,624,269 and expenditures for the General Fund were \$16,516,704.

The city's investment earnings remain low due to current economic conditions. However, recognition of the need to maximize earnings will result in a close look at the City's options through the services of a Registered Municipal Advisor including investment policy development.

Capital Assets and Debt Administration

Capital Assets: The City of Covington's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$49,408,668 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, the water treatment plant, and the wastewater treatment plant. The total increase in capital assets for the current fiscal year was approximately 3.5%.

Summary of Capital Assets for Governmental Activities (net of depreciation)
As of June 30, 2015 and 2014

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 1,955,871	\$ 1,955,871	\$ -	\$ -	\$ 1,955,871	\$ 1,955,871
Buildings and improvements	22,212,059	22,893,446	-	-	22,212,059	22,893,446
Improvements other than buildings	-	-	-	-	-	-
Machinery and equipment	2,241,611	2,125,049	-	-	2,241,611	2,125,049
Infrastructure	757,925	644,813	19,035,614	12,421,989	19,793,539	13,066,802
Construction in progress	49,653	49,653	3,155,935	7,662,728	3,205,588	7,712,381
Total	\$ 27,217,119	\$ 27,668,832	\$ 22,191,549	\$ 20,084,717	\$ 49,408,668	\$ 47,753,549

City of Covington's Capital Assets

Governmental capital assets decreased slightly from the prior year, primarily due to normal depreciation. Business-Type capital assets increased based primarily on additional water and sewer construction projects and associated capitalization of projects in progress during fiscal year 2014.

Additional information on the City of Covington's capital assets can be found in Note 12 of this report.

City of Covington's Outstanding Debt

Summary of Outstanding Debt For the Year Ended June 30, 2015 and 2014

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation refunding bonds	\$ 13,897,000	\$ 14,124,000	\$	\$	\$ 13,897,000	\$ 14,124,000
Deferred Amounts						
Bond Premiums	492,437	496,278	665,529	693,259	1,157,966	1,189,537
Bond Discounts	(226,198)	(232,512)			(226,198)	(232,512)
Revenue Bonds	11,090,000	11,190,000	15,825,376	15,511,401	26,915,376	26,701,401
Capital leases	1,374,709	84,725			1,374,709	84,725
Landfill Closure/Post Closure Liability	5,268,514	5,190,654			5,268,514	5,190,654
Other Obligations (Insurance/Leave)	679,650	652,564	139,636	131,677	819,286	784,241
Net Pension Liability	4,251,795	5,358,687	876,716	1,104,955	5,128,511	6,463,642
Total	\$ 36,827,907	\$ 36,864,396	\$ 17,507,257	\$ 17,441,292	\$ 54,335,164	\$ 54,305,688

The City of Covington's total debt decreased by \$29,476 or (.05%) during the current fiscal year. This decrease in debt was driven through the reduction in net pension liability over the course of the fiscal year of \$1,335,131. Also, the city issued \$1,374,709 in capital leases during the year and drew down additional VRA Loan Proceeds of \$851,475.

The *Component Unit School Board* has long-term "Other Obligations" transactions related to compensated absences, Net OPEB obligation, and Net Pensions Liability in the amount of \$9,691,532 as of June 30, 2015. This obligation is an overall increase of \$1,466,904 compared to the previous fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of the assessed value of taxable real estate. The current debt limitation for the City of Covington is \$27,449,528 which is significantly in excess of the City of Covington's outstanding general obligation debt of \$13,897,000. The legal margin for creation of additional debt is \$13,552,528 as of June 30, 2015.

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect the City of Covington and were considered in developing the 2015-2016 Fiscal Year Budget:

- The unemployment rate for the City of Covington fell to 6.1% on June 30, 2015, a decrease from the prior year rate of 8.9% on June 30, 2014. With an increasing number of business permits being granted, the city is hopeful the unemployment rate will continue to decline.
- There was a rate increase in Business-Type Activity Funds of \$1 to the flat rate amount, though no further increases are currently planned.
- Real Estate Taxes per \$100.00 of value were increased 2 cents from \$0.71 to \$0.73.
- Soft Billing for Rescue Squad Services exceeded projected of \$310,000 by bringing in \$353,807. A successful first full year of billings. It is expected to generate even more revenue going into next fiscal year.
- Health Insurance Costs for the city increased for the 2014-15 budget year by 10.1%, the employee portion, 5.2% of the 10.1% increase, was not passed on to employees and instead was covered by the city.
- In the new fiscal year, VML VACoRP advisors have been assisting in replacing the IDA Bond with a literary loan that has a 2% rate versus the 4-4.65% offered by the IDA instrument. This may result in a potential savings of \$3,000,000 to \$4,500,000 over the lifetime of the loan.
- No unassigned fund balance was taken from 2014-2015 dollars to balance the 2015-2016 Budget.

The City of Covington receives substantial Machinery and Tools revenue and the percentage of those revenues is significant in the total local revenues realized by the city each year. Effective January 1, 2011, legislation enacted by the General Assembly, put law in to place that states "certified pollution control equipment and facilities" are exempt from state and local taxation. Currently, there are no amended returns, appeals, pending equipment exemption approvals or denials related to Mead Westvaco. However, the city refunded \$735,038.32 during Fiscal Year 2014-2015. The 2015-2016 Budget includes \$364,539 in refund payments. What we presume to be Mead Westvaco's final appeal with the State Tax Commissioner was ruled in the city's favor, resulting in final resolution of this refunding as fully disbursed. No further legal action is currently pending on the matter. It should be noted FY 2014-2015 Public Service Corporation revenues related to the Mead Westvaco Boiler project have increased and offset Machinery & Tools Tax losses. However, this funding stream is not taxable like Machinery & Tools because the real estate tax rate is used. Further, these *depreciable* assets will result in considerably less revenue over a period of 25 years.

Requests for Information

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

Basic Financial Statements

City of Covington, Virginia
Statement of Net Position
June 30, 2015

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit School Board
ASSETS				
Cash and cash equivalents	\$ 2,210,867	\$ 3,401,606	\$ 5,612,473	\$ 591,679
Cash in custody of others	-	-	-	48,057
Investments	65,844	-	65,844	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,422,903	-	2,422,903	-
Other local taxes receivable	116,699	-	116,699	-
Accounts receivable	116,182	617,719	733,901	5,619
Due from component unit	207,016	-	207,016	-
Intergovernmental receivable	770,988	-	770,988	349,062
Inventories	-	-	-	6,244
Prepaid items	526,991	-	526,991	4,616
Restricted assets:				
Cash and cash equivalents	1,875,569	707,876	2,583,445	-
Investments	-	3,908,316	3,908,316	-
Capital assets not being depreciated:				
Land	1,955,871	-	1,955,871	89,663
Construction in progress	49,653	3,155,935	3,205,588	-
Capital assets, net of accumulated depreciation:				
Buildings and improvements	22,212,059	-	22,212,059	1,844,084
Machinery, equipment, and vehicles	2,241,611	-	2,241,611	245,241
Infrastructure	757,925	19,035,614	19,793,539	-
Total Assets	<u>\$ 35,530,178</u>	<u>\$ 30,827,066</u>	<u>\$ 66,357,244</u>	<u>\$ 3,184,265</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	\$ 235,109	\$ -	\$ 235,109	\$ -
Pension contributions subsequent to measurement date	500,095	103,119	603,214	784,341
Total deferred outflows of resources	<u>\$ 735,204</u>	<u>\$ 103,119</u>	<u>\$ 838,323</u>	<u>\$ 784,341</u>
LIABILITIES				
Accounts payable	\$ 173,732	\$ 1,046,723	\$ 1,220,455	\$ -
Accrued liabilities	178,873	31,058	209,931	770,772
Tax refunds payable	364,548	-	364,548	-
Retainage payable	-	105,004	105,004	-
Customers' deposits	-	61,439	61,439	-
Accrued interest payable	461,227	57,429	518,656	-
Due to primary government	-	-	-	207,016
Deposits held in escrow	12,564	-	12,564	-
Noncurrent liabilities:				
Due within one year	969,206	778,686	1,747,892	272,950
Due in more than one year	35,858,701	16,728,571	52,587,272	9,418,582
Total Liabilities	<u>\$ 38,018,851</u>	<u>\$ 18,808,910</u>	<u>\$ 56,827,761</u>	<u>\$ 10,669,320</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - property taxes	\$ 1,978,961	\$ -	\$ 1,978,961	\$ -
Items related to measurement of net pension liability	940,317	193,893	1,134,210	1,396,365
Change in proportionate share of net pension liability	-	-	-	88,000
	<u>\$ 2,919,278</u>	<u>\$ 193,893</u>	<u>\$ 3,113,171</u>	<u>\$ 1,484,365</u>
NET POSITION				
Net investment in capital assets	\$ 1,837,024	\$ 9,503,956	\$ 11,340,980	\$ 2,178,988
Restricted:				
Capital lease projects	862,825	-	862,825	-
Transportation enhancement grants	121,653	-	121,653	-
Debt Service	-	648,337	648,337	-
Unrestricted	(7,494,249)	1,775,089	(5,719,160)	(10,364,067)
Total Net Position	<u>\$ (4,672,747)</u>	<u>\$ 11,927,382</u>	<u>\$ 7,254,635</u>	<u>\$ (8,185,079)</u>

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

City of Covington, Virginia
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-type Activities	Total	
			Operating Grants and Contributions	Capital Grants and Contributions				
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 1,509,994	\$ 578	\$ 170,241	\$ -	\$ (1,339,175)	\$ -	\$ (1,339,175)	
Judicial administration	295,423	-	-	-	(295,423)	-	(295,423)	
Public safety	3,366,041	499,003	360,749	8,136	(2,498,153)	-	(2,498,153)	
Public works	2,598,684	934,344	994,939	-	(669,401)	-	(669,401)	
Health and welfare	1,498,921	-	880,044	-	(618,877)	-	(618,877)	
Education	4,304,188	-	-	-	(4,304,188)	-	(4,304,188)	
Parks, recreation, and cultural	1,568,825	103,894	-	-	(1,464,931)	-	(1,464,931)	
Community development	110,143	1,121	-	-	(109,022)	-	(109,022)	
Interest on long-term debt	1,211,614	-	-	-	(1,211,614)	-	(1,211,614)	
Total governmental activities	\$ 16,463,833	\$ 1,538,940	\$ 2,405,973	\$ 8,136	\$ (12,510,784)	\$ -	\$ (12,510,784)	
Business-type activities:								
Water	\$ 1,093,836	\$ 1,838,539	\$ -	\$ -	\$ -	\$ 744,703	\$ 744,703	
Sewer	1,459,626	1,632,004	-	47,246	-	219,624	219,624	
Total business-type activities	\$ 2,553,462	\$ 3,470,543	\$ -	\$ 47,246	\$ -	\$ 964,327	\$ 964,327	
Total primary government	\$ 19,017,295	\$ 5,009,483	\$ 2,405,973	\$ 55,382	\$ (12,510,784)	\$ 964,327	\$ (11,546,457)	
COMPONENT UNIT:								
School Board	\$ 11,108,414	\$ 81,618	\$ 6,919,895	\$ -	\$ -	\$ -	\$ (4,106,901)	
General revenues:								
General property taxes					\$ 7,917,708	\$ -	\$ 7,917,708	
Other local taxes:								
Local sales and use taxes					1,239,277	-	1,239,277	
Consumers' utility taxes					425,504	-	425,504	
Consumption taxes					23,228	-	23,228	
Business license taxes					568,657	-	568,657	
Motor vehicle licenses					134,756	-	134,756	
Bank stock taxes					196,173	-	196,173	
Recordation taxes					3,444	-	3,444	
Hotel and motel room taxes					6,679	-	6,679	
Restaurant food taxes					951,890	-	951,890	
Tobacco taxes					107,369	-	107,369	
Unrestricted revenues from use of money and property					43,680	7,473	51,153	2,276
Miscellaneous					131,239	9,453	140,692	71,303
Payments from the City of Covington					-	-	-	4,302,688
Grants and contributions not restricted to specific programs					893,422	-	893,422	-
Transfers					386,043	(386,043)	-	-
Total general revenues and transfers					\$ 13,029,069	\$ (369,117)	\$ 12,659,952	\$ 4,376,267
Change in net position					\$ 518,285	\$ 595,210	\$ 1,113,495	\$ 269,366
Net position - beginning, as restated					(5,191,032)	11,332,172	6,141,140	(8,454,445)
Net position - ending					\$ (4,672,747)	\$ 11,927,382	\$ 7,254,635	\$ (8,185,079)

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

City of Covington, Virginia
Balance Sheet
Governmental Funds
June 30, 2015

	<u>General</u>	School Debt Service <u>Reserve</u>	School <u>Construction</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 2,210,036	\$ 831	\$ -	\$ 2,210,867
Cash in custody of others				-
Investments	65,844	-	-	65,844
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,422,903	-	-	2,422,903
Other local taxes receivables	116,699	-	-	116,699
Accounts receivable	116,182	-	-	116,182
Due from component unit	207,016	-	-	207,016
Intergovernmental receivable	770,988	-	-	770,988
Prepaid items	526,991	-	-	526,991
Restricted assets:				
Cash and cash equivalents	862,825	-	1,012,744	1,875,569
Total assets	<u>\$ 7,299,484</u>	<u>\$ 831</u>	<u>\$ 1,012,744</u>	<u>\$ 8,313,059</u>
LIABILITIES				
Accounts payable	\$ 173,732	\$ -	\$ -	\$ 173,732
Accrued liabilities	178,873	-	-	178,873
Tax refunds payable	364,548	-	-	364,548
Deposits held in escrow	12,564	-	-	12,564
Total liabilities	<u>\$ 729,717</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 729,717</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	\$ 2,395,040	\$ -	\$ -	\$ 2,395,040
	<u>\$ 2,395,040</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,395,040</u>
FUND BALANCES				
Nonspendable:				
Prepaid items	\$ 526,991	\$ -	\$ -	\$ 526,991
Restricted:				
School construction	-	-	1,012,744	1,012,744
Transportation enhancement grants	121,653	-	-	121,653
Capital lease projects	862,825	-	-	862,825
Committed:				
Debt service funds	-	831	-	831
Unassigned	2,663,258	-	-	2,663,258
Total fund balances	<u>\$ 4,174,727</u>	<u>\$ 831</u>	<u>\$ 1,012,744</u>	<u>\$ 5,188,302</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,299,484</u>	<u>\$ 831</u>	<u>\$ 1,012,744</u>	<u>\$ 8,313,059</u>

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

City of Covington, Virginia
 Reconciliation of the Balance Sheet of Governmental Funds
 To the Statement of Net Position
 June 30, 2015

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 5,188,302

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

Land	\$ 1,955,871	
Buildings and improvements	22,212,059	
Machinery, equipment, and vehicles	2,241,611	
Infrastructure	757,925	
Construction in progress	49,653	27,217,119

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

Unavailable revenue - property taxes	\$ 416,079	
Items related to measurement of net pension liability	(940,317)	(524,238)

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

500,095

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

General obligation bonds	\$ (13,897,000)	
Less: Deferred charges on refunding	235,109	
Lease revenue bonds	(11,090,000)	
Capital lease	(1,374,709)	
Unamortized premium	(492,437)	
Unamortized discount	226,198	
Compensated absences	(315,411)	
Landfill accrued closure/post-closure costs	(5,268,514)	
Accrued interest payable	(461,227)	
Net OPEB obligation	(364,239)	
Net pension liability	(4,251,795)	(37,054,025)

Net position of governmental activities \$ (4,672,747)

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

City of Covington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	<u>General</u>	<u>School Debt Service Reserve</u>	<u>School Construction</u>	<u>Total</u>
REVENUES				
General property taxes	\$ 7,936,275	\$ -	\$ -	\$ 7,936,275
Other local taxes	3,656,977	-	-	3,656,977
Permits, privilege fees, and regulatory licenses	14,612	-	-	14,612
Fines and forfeitures	6,035	-	-	6,035
Revenue from the use of money and property	43,330	289	61	43,680
Charges for services	1,518,293	-	-	1,518,293
Miscellaneous	131,239	-	-	131,239
Recovered costs	9,977	-	-	9,977
Intergovernmental:				
Commonwealth	3,188,731	-	-	3,188,731
Federal	118,800	-	-	118,800
Total revenues	<u>\$ 16,624,269</u>	<u>\$ 289</u>	<u>\$ 61</u>	<u>\$ 16,624,619</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,508,481	\$ -	\$ -	\$ 1,508,481
Judicial administration	295,423	-	-	295,423
Public safety	3,403,939	-	-	3,403,939
Public works	2,692,712	-	-	2,692,712
Health and welfare	1,520,875	-	-	1,520,875
Education	3,719,086	-	-	3,719,086
Parks, recreation, and cultural	1,636,406	-	-	1,636,406
Community development	110,143	-	-	110,143
Nondepartmental	30,688	-	-	30,688
Debt service:				
Principal retirement	411,725	-	-	411,725
Interest and other fiscal charges	1,187,226	33	-	1,187,259
Total expenditures	<u>\$ 16,516,704</u>	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ 16,516,737</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 107,565</u>	<u>\$ 256</u>	<u>\$ 61</u>	<u>\$ 107,882</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 386,463	\$ -	\$ -	\$ 386,463
Transfers out	(409)	(11)	-	(420)
Issuance of capital leases	1,374,709	-	-	1,374,709
Total other financing sources (uses)	<u>\$ 1,760,763</u>	<u>\$ (11)</u>	<u>\$ -</u>	<u>\$ 1,760,752</u>
Net change in fund balances	\$ 1,868,328	\$ 245	\$ 61	\$ 1,868,634
Fund balances - beginning	<u>2,306,399</u>	<u>586</u>	<u>1,012,683</u>	<u>3,319,668</u>
Fund balances - ending	<u>\$ 4,174,727</u>	<u>\$ 831</u>	<u>\$ 1,012,744</u>	<u>\$ 5,188,302</u>

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

City of Covington, Virginia
 Reconciliation of Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds \$ 1,868,634

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

Capital asset additions	\$ 714,606	
Depreciation expense	<u>(1,166,319)</u>	(451,713)

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

Change in unavailable revenue - property taxes and other local taxes	\$ (18,567)	
Change in deferred inflows related to the measurement of the net pension liability	<u>(940,317)</u>	(958,884)

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

Capital leases	\$ (1,374,709)	
(Increase) decrease in landfill closure and post-closure monitoring costs	(77,860)	
Principal Payments:		
General obligation bonds	227,000	
Lease revenue bond	100,000	
Capital lease	<u>84,725</u>	(1,040,844)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

(Increase) decrease in compensated absences	\$ 9,360	
(Increase) decrease in net OPEB obligation	(36,446)	
Amortization of bond discount	(6,314)	
Amortization of bond premiums	3,841	
Amortization of deferred amount on refundings	(100,190)	
(Increase) decrease in accrued interest payable	78,308	
Change in net pension liability	1,106,892	
Change in deferred outflows related to pension payments subsequent to the measurement date	<u>45,641</u>	1,101,092

Change in net position of governmental activities		<u>\$ 518,285</u>
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The notes to the financial statements are an integral part of this statement.

City of Covington, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2015

	Enterprise Funds		<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,931,660	\$ 1,469,946	\$ 3,401,606
Accounts receivable, net of allowance for uncollectibles	349,537	268,182	617,719
Restricted current assets:			
Cash and cash equivalents	389,950	317,926	707,876
Investments	3,908,316	-	3,908,316
Total current assets	<u>\$ 6,579,463</u>	<u>\$ 2,056,054</u>	<u>\$ 8,635,517</u>
Noncurrent assets:			
Capital assets:			
Utility plant in service	\$ 8,322,600	\$ 21,623,084	\$ 29,945,684
Accumulated depreciation	(5,395,844)	(5,514,226)	(10,910,070)
Construction in progress	3,155,935	-	3,155,935
Total capital assets	<u>\$ 6,082,691</u>	<u>\$ 16,108,858</u>	<u>\$ 22,191,549</u>
Total assets	<u>\$ 12,662,154</u>	<u>\$ 18,164,912</u>	<u>\$ 30,827,066</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to the measurement date	\$ 53,458	\$ 49,661	\$ 103,119
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,046,678	\$ 45	\$ 1,046,723
Wages payable	15,723	15,335	31,058
Customers' deposits	33,870	27,569	61,439
Accrued interest payable	57,429	-	57,429
Retainage payable	105,004	-	105,004
Compensated absences - current portion	23,897	22,060	45,956
Bonds payable - current portion	157,730	575,000	732,730
Total current liabilities	<u>\$ 1,440,331</u>	<u>\$ 640,009</u>	<u>\$ 2,080,339</u>
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 5,777,799	\$ 9,980,376	\$ 15,758,175
Net OPEB obligation	43,065	35,296	78,361
Compensated absences	7,966	7,353	15,319
Net pension liability	454,499	422,217	876,716
Total noncurrent liabilities	<u>\$ 6,283,329</u>	<u>\$ 10,445,242</u>	<u>\$ 16,728,571</u>
Total liabilities	<u>\$ 7,723,659</u>	<u>\$ 11,085,251</u>	<u>\$ 18,808,910</u>
DEFERRED INFLOWS OF RESOURCES			
Items related to measurement of net pension liability	\$ 100,516	\$ 93,377	\$ 193,893
NET POSITION			
Net investment in capital assets	\$ 3,950,474	\$ 5,553,482	\$ 9,503,956
Restricted for debt service and bond covenants	357,993	290,344	648,337
Unrestricted	582,970	1,192,119	1,775,089
Total net position	<u>\$ 4,891,437</u>	<u>\$ 7,035,945</u>	<u>\$ 11,927,382</u>

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

City of Covington, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015

	Enterprise Funds		<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
OPERATING REVENUES			
Charges for services:			
Water revenues	\$ 1,825,409	\$ -	\$ 1,825,409
Sewer revenues	-	1,615,800	1,615,800
Penalties	13,130	16,204	29,334
Miscellaneous	2,907	6,546	9,453
Total operating revenues	<u>\$ 1,841,446</u>	<u>\$ 1,638,550</u>	<u>\$ 3,479,996</u>
OPERATING EXPENSES			
Salaries and wages	\$ 365,273	\$ 320,769	\$ 686,042
Fringes	178,683	166,461	345,144
Contracted services	41,229	112,327	153,556
Other charges	300,458	306,703	607,161
Purchase of equipment	35,293	576	35,869
Lease/rent of equipment	900	256	1,156
OPEB expense	3,784	3,370	7,154
Depreciation	168,216	549,164	717,380
Total operating expenses	<u>\$ 1,093,836</u>	<u>\$ 1,459,626</u>	<u>\$ 2,553,462</u>
Operating income (loss)	<u>\$ 747,610</u>	<u>\$ 178,924</u>	<u>\$ 926,534</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	\$ 6,700	\$ 773	\$ 7,473
Income (loss) before contributions and transfers	<u>\$ 754,310</u>	<u>\$ 179,697</u>	<u>\$ 934,007</u>
Capital contributions and construction grants	\$ -	\$ 47,246	\$ 47,246
Transfers in	-	130,883	130,883
Transfers out	(299,122)	(217,804)	(516,926)
Change in net position	<u>\$ 455,188</u>	<u>\$ 140,022</u>	<u>\$ 595,210</u>
Net position - beginning, as restated	4,436,249	6,895,923	11,332,172
Net position - ending	<u>\$ 4,891,437</u>	<u>\$ 7,035,945</u>	<u>\$ 11,927,382</u>

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

City of Covington, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,761,646	\$ 1,557,658	\$ 3,319,304
Payments to suppliers	(377,801)	(419,817)	(797,618)
Payments to employees	(561,992)	(509,100)	(1,071,092)
Net cash provided by (used for) operating activities	<u>\$ 821,853</u>	<u>\$ 628,741</u>	<u>\$ 1,450,594</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	\$ (299,122)	\$ (217,804)	\$ (516,926)
Transfers from other funds	-	130,883	130,883
Net cash provided by (used for) noncapital financing activities	<u>\$ (299,122)</u>	<u>\$ (86,921)</u>	<u>\$ (386,043)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of utility plant	\$ (1,208,591)	\$ (1,055,844)	\$ (2,264,435)
Principal payments on bonds	(125,000)	(412,500)	(537,500)
Capital grants	-	137,548	137,548
Proceeds from indebtedness	-	851,475	851,475
Interest payments	(231,243)	-	(231,243)
Net cash provided by (used for) capital and related financing activities	<u>\$ (1,564,834)</u>	<u>\$ (479,321)</u>	<u>\$ (2,044,155)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	\$ 6,700	\$ 773	\$ 7,473
Net increase (decrease) in cash and cash equivalents	\$ (1,035,403)	\$ 63,272	\$ (972,131)
Cash and cash equivalents - beginning	7,265,329	1,724,600	8,989,929
Cash and cash equivalents - ending	<u>\$ 6,229,926</u>	<u>\$ 1,787,872</u>	<u>\$ 8,017,798</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 747,610	\$ 178,924	\$ 926,534
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	\$ 168,216	\$ 549,164	\$ 717,380
Net OPEB obligation	3,784	3,370	7,154
(Increase) decrease in accounts receivable	(81,713)	(81,676)	(163,389)
(Increase) decrease in deferred outflows of resources	(4,879)	(4,532)	(9,411)
Increase (decrease) in customer deposits	1,913	784	2,697
Increase (decrease) in accounts payable	79	45	124
Increase (decrease) in wages payable	764	2,282	3,046
Increase (decrease) in compensated absences	3,884	(3,079)	805
Increase (decrease) in net pension liability	(118,321)	(109,918)	(228,239)
Increase (decrease) in deferred inflows of resources	100,516	93,377	193,893
Total adjustments	<u>\$ 74,243</u>	<u>\$ 449,817</u>	<u>\$ 524,060</u>
Net cash provided by (used for) operating activities	<u>\$ 821,853</u>	<u>\$ 628,741</u>	<u>\$ 1,450,594</u>

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

CITY OF COVINGTON, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 - Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity

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

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

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

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

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

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

The City participates in the Charles Pinckney Jones Memorial Library. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The City's contribution during fiscal year 2015 was \$110,598.

B. Government-Wide and Fund Financial Statements

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

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

B. Government-Wide and Fund Financial Statements (Continued)

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

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

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

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

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

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

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 unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

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

The government reports the following major governmental funds:

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

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

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

The government reports the following major proprietary funds:

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

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

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

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

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

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

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

1. Cash and Cash Equivalents

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

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

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

2. Receivables and Payables

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

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

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

3. Property Taxes

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

4. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$102,034 at June 30, 2015 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.

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

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

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

6. Capital Assets (Continued)

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

<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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts.

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

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

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

9. Fund Equity

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

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

Committed Fund Balance Policy:

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

Assigned Fund Balance Policy:

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

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.

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

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

10. Deferred Outflows/Inflows of Resources

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

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

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

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

11. Pensions

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

12. Net Position

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

The City's net position is classified as follows:

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

Restricted- This category includes resources for which the City is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted - Unrestricted net position represents resources derived from charges to customers for goods received, services rendered or privileges provided, operating grants and contributions, and capital grants and contributions. These resources are used for transactions relating to the operations of the City and may be used at the City's discretion to meet current expenses for any lawful purposes.

13. Net Position Flow Assumption

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

Note 2 - Stewardship, Compliance, and Accountability:

A. Budgetary Information

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

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

B. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2015, there were no departments that had expenditures in excess of appropriations.

C. Deficit Fund Equity

At June 30, 2015, there were no funds with deficit fund equity.

Note 3 - Deposits and Investments:

Deposits

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

Investments

Statutes authorize the City and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2015 and June 30, 2014, the City had 1,176 shares of MetLife Trust stock valued at a \$55.99 and \$51.30 per share for a total value of \$65,844 and \$60,329, respectively.

The City's rated debt investments as of June 30, 2015 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

City's Rated Debt Investment Values	
Rated Debt Investments	Fair Quality Ratings
State Non-arbitrage Pool (SNAP)	AAAm
\$	3,908,317

External Investment Pools

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission.

The fair value of the positions in the external investment pools (State Non-Arbitrage Pool) is the same as the value of the pool shares.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 4 - Due from Other Governmental Units:

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

	<u>Primary Government Governmental</u>	<u>Component Unit School Board</u>
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 215,158	\$ -
State sales tax	-	172,006
Non-categorical aid	324,813	-
Categorical aid - shared expenses	12,292	-
Categorical aid - Comprehensive Services Act	187,168	-
Categorical aid - VPA	5,119	-
Categorical aid - other	10,163	-
<u>Federal Government:</u>		
Categorical aid - VPA	4,392	-
Categorical aid - other	11,883	177,056
	<u>\$ 770,988</u>	<u>\$ 349,062</u>
Totals		

Note 5 - Interfund Transfers:

Interfund transfers for the year ended June 30, 2015, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Primary Government:</u>		
General Fund	\$ 386,463	\$ 409
Water Fund	-	299,122
Sewer Fund	130,883	217,804
School Debt Reserve Fund	-	11
Total	<u>\$ 517,346</u>	<u>\$ 517,346</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.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 6 - Long-Term Obligations:

Primary Government - Governmental Activities Indebtedness:

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2015:

	Balance July 1, 2014, as restated	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2015
General obligation bonds	\$ 14,124,000	\$ -	\$ (227,000)	\$ 13,897,000
Deferred amounts:				
Premium	496,278	-	(3,841)	492,437
Discounts	(232,512)	-	6,314	(226,198)
Lease revenue bond	11,190,000	-	(100,000)	11,090,000
Capital lease (note 7)	84,725	1,374,709	(84,725)	1,374,709
Landfill closure/ post-closure liability	5,190,654	77,860	-	5,268,514
Compensated absences	324,771	234,218	(243,578)	315,411
Net OPEB obligation	327,793	68,210	(31,764)	364,239
Net pension liability	5,358,687	1,601,989	(2,708,881)	4,251,795
Total	\$ 36,864,396	\$ 3,356,986	\$ (3,393,475)	\$ 36,827,907

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

Year Ending June 30,	General Obligation Bonds		Lease Revenue Bond	
	Principal	Interest	Principal	Interest
2016	\$ 431,000	\$ 574,712	\$ 100,000	\$ 506,038
2017	456,000	553,965	100,000	502,038
2018	480,000	532,208	100,000	498,038
2019	509,000	509,088	100,000	494,038
2020	537,000	484,675	100,000	490,038
2021-2025	3,123,000	2,054,236	500,000	2,387,500
2026-2030	3,546,000	1,400,781	865,000	2,258,022
2031-2035	410,000	1,004,276	5,125,000	1,540,703
2036-2040	2,825,000	757,129	4,100,000	379,250
2041	1,580,000	33,970	-	-
Totals	\$ 13,897,000	\$ 7,905,040	\$ 11,090,000	\$ 9,055,663

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 6 - Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness: (Continued)

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:							
GO Refunding Bond	3.92%	6/17/2006	2028	\$133,000-\$226,000 a+	\$ 3,232,000	\$ 2,357,000	\$ 146,000
VPSA GO Refunding Bond	5.05%-4.30%	11/21/2013	2041	\$90,000-\$1,580,000 a+	11,630,000	11,540,000	285,000
Total General Obligation Bonds						<u>\$ 13,897,000</u>	<u>\$ 431,000</u>
Lease Revenue Bond:							
Lease Revenue Bond	4.00%-4.50%	12/1/2007	2039	\$100,000 a+	\$ 11,490,000	\$ 11,090,000	\$ 100,000
Deferred Amount:							
Unamortized Discount					\$ (274,460)	\$ (226,198)	\$ (6,049)
Unamortized Premium					496,278	492,437	12,162
Total Deferred Amounts						<u>\$ 266,239</u>	<u>\$ 6,113</u>
Capital Leases:							
Mini Excavator Truck	1.55%	4/30/2015	2018	\$17,331 a	\$ 50,611	\$ 50,611	\$ 16,611
Fire Truck	1.84%	4/30/2015	2022	\$77,524 a	506,992	506,992	68,509
Garbage Truck	1.84%	4/30/2015	2022	\$24,989 a	163,421	163,421	22,083
Financial Software	1.84%	4/30/2015	2022	\$99,955 a	653,685	653,685	88,332
Total Capital Leases						<u>\$ 1,374,709</u>	<u>\$ 195,535</u>
Other Obligations:							
Compensated Absences						315,411	236,558
Net OPEB Obligation						364,239	-
Landfill Closure/Post-closure liability						5,268,514	-
Net pension liability						4,251,795	-
Total Other Obligations						<u>\$ 10,199,959</u>	<u>\$ 236,558</u>
Total Long-Term Obligations						<u>\$ 36,827,907</u>	<u>\$ 969,206</u>

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

(a) - annual installment including principal and interest

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 6 - Long-Term Obligations: (Continued)

Primary Government - Business-type Activities Indebtedness:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2015:

	Balance July 1, 2014 as restated	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2015
Revenue bonds	\$ 15,511,401	\$ 851,475	\$ (537,500)	\$ 15,825,376
Deferred amount:				
Premium	693,259	-	(27,730)	665,529
Net OPEB obligation	71,207	13,390	(6,236)	78,361
Compensated absences	60,470	-	805	61,275
Net pension liability	1,104,955	330,325	(558,564)	876,716
Total	\$ 17,441,292	\$ 1,195,190	\$ (1,129,225)	\$ 17,507,257

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

Year Ending June 30,	Revenue Bonds			
	Water		Sewer	
	Principal	Interest	Principal	Interest
2016	\$ 130,000	\$ 227,034	\$ 575,000	\$ -
2017	135,000	222,993	575,000	-
2018	135,000	218,374	575,000	-
2019	145,000	211,999	575,000	-
2020	150,000	205,265	575,000	-
2021-2025	860,000	920,591	2,875,000	-
2026-2030	1,075,000	708,759	2,875,000	-
2031-2035	1,340,000	437,216	1,930,376	-
2036-2039	1,300,000	119,441	-	-
Totals	\$ 5,270,000	\$ 3,271,672	\$ 10,555,376	\$ -

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 6 - Long-Term Obligation: (Continued)

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

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Revenue Bonds:							
Revenue Bond	0.00%	12/1/2010	2031	\$250,000 a	\$ 5,000,000	\$ 4,244,251	\$ 250,000
Revenue Bond	0.00%	5/10/2012	2032	\$162,500-325,000 a	6,500,000	6,311,125	325,000
Revenue Bond	2.04-4.83%	4/4/2013	2039	\$125,000-345,000 a+	5,395,000	5,270,000	130,000
Total Revenue Bonds						\$ 15,825,376	\$ 705,000
Deferred Amount:							
Unamortized Premium					\$ 720,990	\$ 665,529	\$ 27,730
Other Obligations:							
Compensated Absences						\$ 61,275	\$ 45,956
Net OPEB Obligation						78,361	-
Net pension liability						876,716	-
Total Other Obligations						\$ 1,016,352	\$ 45,956
Total Long-Term Obligations						\$ 17,507,257	\$ 778,686

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

(a) - annual principal installments shown; no interest

Note 7 - Capital Lease:

Primary Government:

The City has entered into a lease agreement as lessee for the financing of the acquisition of a mini excavator truck, fire truck, garbage truck, and financial software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date. As of June 30, 2015, none of the assets related to these capital leases had been purchased.

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CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 7 - Capital Lease: (Continued)

Primary Government: (Continued)

The future minimum lease obligation and the net present value of minimum lease payments as of June 30, 2015, were as follows:

Fiscal Year Ended	Capital Leases
2016	\$ 219,798
2017	219,798
2018	219,799
2019	202,468
2020	202,468
2021-2022	404,935
Total minimum lease payments	\$ 1,469,266
Less: amount representing interest	(94,557)
Present value of minimum lease payments	<u>\$ 1,374,709</u>

Note 8 - 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, 2015:

	Balance July 1, 2014 as restated	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2015
Compensated absences	\$ 374,890	\$ 270,211	\$ (281,168)	\$ 363,933
Net OPEB obligation	210,100	69,400	(54,300)	225,200
Net pension liability	10,573,446	902,639	(2,373,686)	9,102,399
	<u>\$ 11,158,436</u>	<u>\$ 1,242,250</u>	<u>\$ (2,709,154)</u>	<u>\$ 9,691,532</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 8 - Long-Term Obligations-Component Unit School Board:

Discretely Presented Component Unit - School Board-Indebtedness:

Details of long-term indebtedness:

	<u>Balance Governmental Activities</u>	<u>Amount Due Within One Year</u>
Other Obligations:		
Compensated absences	\$ 363,933	\$ 272,950
Net OPEB obligation	225,200	-
Net pension liability	<u>9,102,399</u>	<u>-</u>
Total Long-term Obligations	<u>\$ 9,691,532</u>	<u>\$ 272,950</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan:

Plan Description

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

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

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

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

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

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

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

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Plan Description (Continued)

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf> or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Primary Government</u>	<u>Component Unit School Board Nonprofessional</u>
Inactive members or their beneficiaries currently receiving benefits	82	17
Inactive members:		
Vested inactive members	5	3
Non-vested inactive members	13	3
Inactive members active elsewhere in VRS	<u>13</u>	<u>8</u>
Total inactive members	31	14
Active members	<u>94</u>	<u>25</u>
Total covered employees	<u><u>207</u></u>	<u><u>56</u></u>

Contributions

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

The City’s contractually required contribution rate for the year ended June 30, 2015 was 16.98% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Contributions (Continued)

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$603,214 and \$548,162 for the years ended June 30, 2015 and June 30, 2014, respectively.

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2015 was 16.03% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$76,341 and \$91,712 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability

The City's and Component Unit School Board's (nonprofessional) net pension liabilities were measured as of June 30, 2014. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the City's and Component Unit School Board's (nonprofessional) Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

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

Note 9 - Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the City's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

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

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Note 9 - Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees (Continued)

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

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

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Discount Rate

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

Changes in Net Pension Liability

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2013	\$ 22,897,094	\$ 16,433,452	\$ 6,463,642
Changes for the year:			
Service cost	\$ 364,378	\$ -	\$ 364,378
Interest	1,553,775	-	1,553,775
Differences between expected and actual experience	-	-	-
Contributions - employer	-	548,162	(548,162)
Contributions - employee	-	175,244	(175,244)
Net investment income	-	2,543,910	(2,543,910)
Benefit payments, including refunds of employee contributions	(1,400,603)	(1,400,603)	-
Administrative expenses	-	(14,164)	14,164
Other changes	-	134	(134)
Net changes	\$ 517,550	\$ 1,852,683	\$ (1,335,133)
Balances at June 30, 2014	\$ 23,414,644	\$ 18,286,135	\$ 5,128,509

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Changes in Net Pension Liability

	Component Unit-School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2013	\$ 2,828,969	\$ 2,015,523	\$ 813,446
Changes for the year:			
Service cost	\$ 58,304	\$ -	\$ 58,304
Interest	191,627	-	191,627
Differences between expected and actual experience	-	-	-
Contributions - employer	-	91,712	(91,712)
Contributions - employee	-	26,021	(26,021)
Net investment income	-	312,953	(312,953)
Benefit payments, including refunds of employee contributions	(182,868)	(182,868)	-
Administrative expenses	-	(1,725)	1,725
Other changes	-	17	(17)
Net changes	\$ 67,063	\$ 246,110	\$ (179,047)
Balances at June 30, 2014	\$ 2,896,032	\$ 2,261,633	\$ 634,399

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
City			
Net Pension Liability (Asset)	\$ 7,988,866	\$ 5,128,509	\$ 2,720,420
Component Unit School Board (nonprofessional)			
Net Pension Liability	944,918	634,399	370,730

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

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

For the year ended June 30, 2015, the City and Component Unit School Board (nonprofessional) recognized pension expense of \$347,238 and \$52,030, respectively. At June 30, 2015, the City and Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government		Component Unit-School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Change in assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,134,209	-	139,365
Employer contributions subsequent to the measurement date	603,214	-	76,341	-
Total	\$ 603,214	\$ 1,134,209	\$ 76,341	\$ 139,365

\$603,214 and \$76,341 reported as deferred outflows of resources related to pensions resulting from the City's and Component Unit School Board's (nonprofessional) contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	Primary Government	Component Unit School Board (nonprofessional)
2016	\$ (283,552)	\$ (34,841)
2017	(283,552)	(34,841)
2018	(283,552)	(34,841)
2019	(283,553)	(34,842)
Thereafter	-	-

Note 9 - Pension Plan: (Continued)

Component Unit School Board (professional)

Plan Description

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

Contributions

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

Each School Division's contractually required contribution rate for the year ended June 30, 2015 was 14.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the Teacher Retirement Plan was 18.20%. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2015. Contributions to the pension plan from the School Board were \$708,000 and \$598,000 for the years ended June 30, 2015 and June 30, 2014, respectively.

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

At June 30, 2015, the school division reported a liability of \$8,468,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the school division's proportion was 0.07007% as compared to 0.07085% at June 30, 2013.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 9 - Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

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

For the year ended June 30, 2015, the school division recognized pension expense of \$651,000. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2015, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,257,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	88,000
Employer contributions subsequent to the measurement date	<u>708,000</u>	<u>-</u>
Total	<u>\$ 708,000</u>	<u>\$ 1,345,000</u>

\$708,000 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>	
2016	\$ (333,000)
2017	(333,000)
2018	(333,000)
2019	(333,000)
Thereafter	(13,000)

Note 9 - Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Note 9 - Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Long-Term Expected Rate of Return

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

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

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

Note 9 - Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Discount Rate

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

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

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

	Rate		
	<u>(6.00%)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>
School division’s proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$ 12,434,000	\$ 8,468,000	\$ 5,202,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 10 - 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 2015, the City and School Board contributed \$38,000 and \$54,300, respectively, for current premiums and prefunding amounts.

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

C. Annual OPEB Cost and Net OPEB Obligation

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

	Primary Government			Total	Component Unit School Board
	General	Water	Sewer		
Annual required contribution	\$ 68,711	\$ 7,135	\$ 6,354	\$ 82,200	\$ 69,700
Interest on net OPEB obligation	13,374	1,389	1,236	15,999	8,400
Adjustment to annual required contribution	(13,875)	(1,441)	(1,283)	(16,599)	(8,700)
Annual OPEB cost (expense)	68,210	7,083	6,307	81,600	69,400
Contributions made	(31,764)	(3,299)	(2,937)	(38,000)	(54,300)
Increase in net OPEB obligation	36,446	3,784	3,370	43,600	15,100
Net OPEB obligation - beginning of year	327,793	39,281	31,926	399,000	210,100
Net OPEB obligation - end of year	\$ 364,239	\$ 43,065	\$ 35,296	\$ 442,600	\$ 225,200

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 10 - Other Postemployment Benefits (OPEB) - Health Insurance: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

The City and City School Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and two preceding years were as follows:

Entity	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
City	6/30/2015	81,600	46.57%	442,600
City	6/30/2014	62,500	50.40%	399,000
City	6/30/2013	60,500	40.31%	368,000
School Board	6/30/2015	69,400	78.24%	225,200
School Board	6/30/2014	68,200	85.19%	210,100
School Board	6/30/2013	66,900	84.93%	200,000

D. Funded Status and Funding Progress

City:

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

School Board:

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liabilities (AAL) were \$869,200, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,575,000 and ratio of the UAAL to the covered payroll was 15.59%.

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

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Note 10 - Other Postemployment Benefits (OPEB) - Health Insurance: (Continued)

E. Actuarial Methods and Assumptions

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

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

In the July 1, 2012, School Board actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return per annum. An annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements of 0.5 percent until an ultimate rate of 5 percent is reached. The UAAL is being amortized as a level percentage over the remaining amortization period, which at June 30, 2012, was 30 years.

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

A. Plan Description

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

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

B. Funding Policy

Primary Government:

As a participating local political subdivision, the City is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2015 was 0.51% 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 2015 was 0.72% of annual covered payroll.

C. Annual OPEB Cost and Net OPEB Obligation

Primary Government:

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

For 2015, the City's contribution of \$16,990 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 2015 and the two preceding years are as follows:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Primary Government:				
City	6/30/2015	\$ 16,990	100.00%	\$ -
	6/30/2014	16,044	100.00%	-
	6/30/2013	16,794	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, 2015

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

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

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

For 2015, the School Board’s contribution of \$5,286 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 2015 and the two preceding years are as follows:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Discretely Presented Component Unit				
School Board (nonprofessional)	6/30/2015	\$ 5,286	100.00%	\$ -
	6/30/2014	4,147	100.00%	-
	6/30/2013	4,005	100.00%	-

D. Funded Status and Funding Progress

Primary Government:

The funded status of the plan as of June 30, 2014, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 322,166
Actuarial value of plan assets	\$ 100,020
Unfunded actuarial accrued liability (UAAL)	\$ 222,146
Funded ratio (actuarial value of plan assets/AAL)	31.05%
Covered payroll (active plan members)	\$ 3,298,379
UAAL as a percentage of covered payroll	6.74%

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

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

D. Funded Status and Funding Progress (Continued)

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

The funded status of the plan as of June 30, 2014, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	59,408
Actuarial value of plan assets	\$	15,099
Unfunded actuarial accrued liability (UAAL)	\$	44,309
Funded ratio (actuarial value of plan assets/AAL)		25.42%
Covered payroll (active plan members)	\$	509,436
UAAL as a percentage of covered payroll		8.70%

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, 2014 was 20-29 years.

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

E. Actuarial Methods and Assumptions (Continued)

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

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2014 was 20-29 years.

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

Professional Employees - Discretely Presented Component Unit School Board

A. Plan Description

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

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

B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.11% of annual covered payroll. The School Board's contributions to VRS for the year ended June 30, 2015 was \$54,300 and equaled the required contributions.

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 12 - Capital Assets:

Capital asset activity for the year ended June 30, 2015 was as follows:

Primary Government:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,955,871	\$ -	\$ -	\$ 1,955,871
Construction in progress	49,653	-	-	49,653
Total capital assets not being depreciated	<u>\$ 2,005,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,005,524</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 30,330,690	\$ 80,292	\$ -	\$ 30,410,982
Infrastructure	1,029,812	163,905	-	1,193,717
Machinery and equipment	7,379,969	470,409	-	7,850,378
Total capital assets being depreciated	<u>\$ 38,740,471</u>	<u>\$ 714,606</u>	<u>\$ -</u>	<u>\$ 39,455,077</u>
Accumulated depreciation:				
Buildings and improvements	\$ (7,437,244)	\$ (761,679)	\$ -	\$ (8,198,923)
Infrastructure	(384,999)	(50,793)	-	(435,792)
Machinery and equipment	(5,254,920)	(353,847)	-	(5,608,767)
Total accumulated depreciation	<u>\$ (13,077,163)</u>	<u>\$ (1,166,319)</u>	<u>\$ -</u>	<u>\$ (14,243,482)</u>
Total capital assets being depreciated, net	<u>\$ 25,663,308</u>	<u>\$ (451,713)</u>	<u>\$ -</u>	<u>\$ 25,211,595</u>
Governmental activities capital assets, net	<u>\$ 27,668,832</u>	<u>\$ (451,713)</u>	<u>\$ -</u>	<u>\$ 27,217,119</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 7,662,728	\$ 2,782,428	\$ (7,289,221)	\$ 3,155,935
Capital assets, being depreciated:				
Infrastructure	\$ 22,614,679	\$ 7,331,005	\$ -	\$ 29,945,684
Accumulated depreciation:				
Infrastructure	\$ (10,192,690)	\$ (717,380)	\$ -	\$ (10,910,070)
Total capital assets being depreciated, net	<u>\$ 12,421,989</u>	<u>\$ 6,613,625</u>	<u>\$ -</u>	<u>\$ 19,035,614</u>
Business-type activities capital assets, net	<u>\$ 20,084,717</u>	<u>\$ 9,396,053</u>	<u>\$ (7,289,221)</u>	<u>\$ 22,191,549</u>

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 12 - Capital Assets: (Continued)

Primary Government: (Continued)

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

Governmental activities:	
Public safety	\$ 244,348
Public works	201,795
Education	585,102
Parks, recreation, and cultural	<u>135,074</u>
Total depreciation expense-governmental activities	\$ <u>1,166,319</u>
Business-type activities:	
Water and sewer funds	\$ <u>717,380</u>
Total depreciation expense-Primary Government	\$ <u><u>1,883,699</u></u>

Discretely Presented Component Unit

Capital asset activity for the School Board for the year ended June 30, 2015 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	\$ <u>89,663</u>	\$ -	\$ -	\$ <u>89,663</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 3,188,460	\$ 419,249	\$ -	\$ 3,607,709
Machinery and equipment	1,053,918	37,354	-	1,091,272
Total capital assets being depreciated	\$ <u>4,242,378</u>	\$ <u>456,603</u>	\$ -	\$ <u>4,698,981</u>
Accumulated depreciation:				
Buildings and improvements	\$ (1,682,459)	\$ (81,166)	\$ -	\$ (1,763,625)
Machinery and equipment	(782,268)	(63,763)	-	(846,031)
Total accumulated depreciation	\$ <u>(2,464,727)</u>	\$ <u>(144,929)</u>	\$ -	\$ <u>(2,609,656)</u>
Total capital assets being depreciated, net	\$ <u>1,777,651</u>	\$ <u>311,674</u>	\$ -	\$ <u>2,089,325</u>
Governmental activities capital assets, net	\$ <u><u>1,867,314</u></u>	\$ <u><u>311,674</u></u>	\$ -	\$ <u><u>2,178,988</u></u>

Note 13 - 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.

Note 14 - 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 15 - 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. \$5,268,514 is the total estimated closure and post-closure care liability for Peters Mountain Landfill permit #594 and #178 at June 30, 2015. This represents the cumulative amount based on the use of 100% of the estimated capacity of the landfill and is based on what it would cost to perform all remaining closure and post-closure care in 2015. 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 68.1% full, including cells A and B. The life expectancy for cells A and B is 7.1 years based on an average annual disposal rate. The current year liability is based on a study performed as of that date and adjusted for inflation. Actual costs for closure and post-closure monitoring may change due to inflation, deflation, changes in technology, or changes in regulations. The City uses the Financial Assurance Mechanism to meet the Department of Environmental Quality's assurance requirements for landfill closure and post-closure costs.

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

CITY OF COVINGTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 16 - Surety Bonds:

<u>Fidelity & Deposit Company of Maryland-Surety:</u>	
J.B. Broughman, City Manager	\$ 100,000
Eunice Dressler Clark, 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 - Deferred/Unavailable Revenue:

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

	<u>Unavailable</u>
Property taxes receivable-2nd half 2015	\$ 1,935,862
Personal property taxes relief	18,126
Prepaid taxes	24,973
Total deferred revenue for governmental activities	\$ 1,978,961
Taxes receivable due prior to June 30, 2015, not collected within 60 days	\$ 416,079
Total unavailable revenue for governmental funds	<u>2,395,040</u>

Note 18 - Construction Commitments:

	Original Contract	Amount Paid As of 6/30/2015	Remaining Contract Amount	Accounts Payable	Retainage Payable
Water System Imp.	\$2,885,434	\$ 706,409	\$ 2,179,025	\$ 646,777	\$ 71,220
Water Treatment Plant Imp.	1,353,122	121,648	1,231,474	360,753	33,783
Total Contracts	<u>\$4,238,556</u>	<u>\$ 828,057</u>	<u>\$ 3,410,499</u>	<u>\$ 1,007,530</u>	<u>\$ 105,003</u>

Note 19 - Concentrations:

The City of Covington, Virginia relies heavily on the MeadWestvaco plant for tax revenue and employment of citizens. MeadWestvaco directly comprises 14.17% of the real estate tax levy, not including 88.99% of the Public Service Corporation tax levy, and 63.71% of the personal property taxes, including machinery and tools tax levy, for a combined 57.91% of the total City's 2014 tax levy.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2015

Note 20 - Litigation:

Mead Westvaco appealed an assessment of machinery and tools tax for the tax years 2011, 2012, and 2013. Following a review by the Commissioner of Revenue and City Council, the City agreed to refund the following amounts including interest for the following years: 2011 - \$538,233, 2012 - \$437,478, and 2013 - \$372,352. During fiscal year 2014, Mead Westvaco requested additional refunds and the City agreed to an additional amount of \$336,502. The City paid its first installment related to the refunds during fiscal year 2014 in the amount of \$613,024. During fiscal year 2015, the City refunded \$735,038 and as of June 30, 2015, owed \$336,502 plus interest of \$28,047 for a total of \$364,549. The entire balance (\$364,549) was refunded during fiscal year 2016.

A taxpayer re-appealed an assessment of machinery and tools tax for the tax year 2013. The Commissioner of the Revenue has not yet made a determination. If the Commissioner of the Revenue determines that a refund is due, the City may be required to refund the taxpayer as much as \$300,000.

As of June 30, 2015, there were no other matters of litigation involving the City which would materially affect the City's financial position should court decisions on pending matters not be favorable.

Note 21-Adoption of Accounting Principle:

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*:

The City implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of these Statements will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in the following restatement of net position:

	Primary Government		Component
	Net Position		Unit
	Governmental Activities	Business-type Activities	Net Position School Board
July 1 2014, as previously stated	\$ (286,799)	\$ 12,343,419	\$ 1,429,289
Net pension liability	(5,358,687)	(1,104,955)	(10,573,446)
Deferred outflows of resources	454,454	93,708	689,712
July 1 2014, as restated	<u>\$ (5,191,032)</u>	<u>\$ 11,332,172</u>	<u>\$ (8,454,445)</u>

Note 22 - Upcoming Pronouncements:

Statement No. 72, *Fair Value Measurement and Application*, amends the definitions of fair value used throughout GASB literature to be consistent with the definition and principles provided in FASB Accounting Standards Codification Topic 820, *Fair Value Measurement*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68 and amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. No formal study or estimate of the impact of this standard has been performed.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. No formal study or estimate of the impact of this standard has been performed.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 22— Upcoming Pronouncements: (Continued)

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, objective is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. No formal study or estimate of the impact of this standard has been performed.

Statement No. 77, *Tax Abatement Disclosures*, will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. No formal study or estimate of the impact of this standard has been performed.

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
General property taxes	\$ 7,637,001	\$ 7,637,001	\$ 7,936,275	\$ 299,274
Other local taxes	3,629,500	3,629,500	3,656,977	27,477
Permits, privilege fees, and regulatory licenses	11,301	11,301	14,612	3,311
Fines and forfeitures	6,500	6,500	6,035	(465)
Revenue from the use of money and property	40,600	40,600	43,330	2,730
Charges for services	1,337,650	1,398,647	1,518,293	119,646
Miscellaneous	750	131,371	131,239	(132)
Recovered costs	13,200	13,200	9,977	(3,223)
Intergovernmental:				
Commonwealth	3,380,015	3,400,785	3,188,731	(212,054)
Federal	252,782	738,750	118,800	(619,950)
Total Revenues	<u>\$ 16,309,299</u>	<u>\$ 17,007,655</u>	<u>\$ 16,624,269</u>	<u>\$ (383,386)</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,489,949	\$ 2,168,943	\$ 1,508,481	\$ 660,462
Judicial administration	312,434	312,434	295,423	17,011
Public safety	3,265,908	4,023,901	3,403,939	619,962
Public works	2,424,866	3,516,096	2,692,712	823,384
Health and welfare	1,723,934	1,723,934	1,520,875	203,059
Education	3,740,113	4,194,113	3,719,086	475,027
Parks, recreation, and cultural	1,459,138	1,697,474	1,636,406	61,068
Community development	99,964	112,964	110,143	2,821
Nondepartmental	-	-	30,688	(30,688)
Debt service:				
Principal retirement	411,726	411,726	411,725	1
Interest and other fiscal charges	1,179,472	1,187,222	1,187,226	(4)
Total Expenditures	<u>\$ 16,107,504</u>	<u>\$ 19,348,807</u>	<u>\$ 16,516,704</u>	<u>\$ 2,832,103</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 201,795</u>	<u>\$ (2,341,152)</u>	<u>\$ 107,565</u>	<u>\$ 2,448,717</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 687,273	\$ 719,998	\$ 386,463	\$ (333,535)
Transfers out	(889,068)	(1,193,802)	(409)	1,193,393
Issuance of capital leases	-	1,374,709	1,374,709	-
Total other financing sources (uses)	<u>\$ (201,795)</u>	<u>\$ 900,905</u>	<u>\$ 1,760,763</u>	<u>\$ 859,858</u>
Net change in fund balances	\$ -	\$ (1,440,247)	\$ 1,868,328	\$ 3,308,575
Fund balances - beginning	-	1,440,247	2,306,399	866,152
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,174,727</u>	<u>\$ 4,174,727</u>

City of Covington, Virginia

Schedule of OPEB Funding Progress
For the Year Ended June 30, 2015

City Postemployment Healthcare Plan

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

City Postemployment VRS Health Insurance Credit

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2014	\$ 100,020	\$ 322,166	\$ 222,146	31.05%	\$ 3,298,379	6.74%
June 30, 2013	92,288	312,192	219,904	29.56%	3,169,540	6.94%
June 30, 2012	84,631	305,720	221,089	27.68%	3,169,682	6.98%

School Board Postemployment Healthcare Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2012	\$ -	\$ 869,200	\$ 869,200	0.00%	\$ 5,575,000	15.59%
July 1, 2010	-	829,000	829,000	0.00%	5,506,000	15.06%
July 1, 2008	-	1,723,300	1,723,300	0.00%	5,481,000	31.44%

School Board Postemployment VRS Health Insurance Credit

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2014	\$ 15,099	\$ 59,408	\$ 44,309	25.42%	\$ 509,436	8.70%
June 30, 2013	13,656	63,421	49,765	21.53%	497,082	10.01%
June 30, 2012	12,615	63,680	51,065	19.81%	517,551	9.87%

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

	2014
Total pension liability	
Service cost	\$ 364,378
Interest	1,553,775
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(1,400,603)
Net change in total pension liability	\$ 517,550
Total pension liability - beginning	22,897,094
Total pension liability - ending (a)	\$ 23,414,644
Plan fiduciary net position	
Contributions - employer	\$ 548,162
Contributions - employee	175,244
Net investment income	2,543,910
Benefit payments, including refunds of employee contributions	(1,400,603)
Administrative expense	(14,164)
Other	134
Net change in plan fiduciary net position	\$ 1,852,683
Plan fiduciary net position - beginning	16,433,452
Plan fiduciary net position - ending (b)	\$ 18,286,135
City's net pension liability - ending (a) - (b)	\$ 5,128,509
Plan fiduciary net position as a percentage of the total pension liability	78.10%
Covered-employee payroll	\$ 3,463,949
City's net pension liability as a percentage of covered-employee payroll	148.05%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

City of Covington, Virginia
 Schedule of Components of and Changes in Net Pension Liability and Related Ratios
 Component Unit School Board (nonprofessional)
 For the Year Ended June 30, 2015

	2014
Total pension liability	
Service cost	\$ 58,304
Interest	191,627
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(182,868)
Net change in total pension liability	\$ 67,063
Total pension liability - beginning	2,828,969
Total pension liability - ending (a)	\$ 2,896,032
Plan fiduciary net position	
Contributions - employer	\$ 91,712
Contributions - employee	26,021
Net investment income	312,953
Benefit payments, including refunds of employee contributions	(182,868)
Administrative expense	(1,725)
Other	17
Net change in plan fiduciary net position	\$ 246,110
Plan fiduciary net position - beginning	2,015,523
Plan fiduciary net position - ending (b)	\$ 2,261,633
School Division's net pension liability - ending (a) - (b)	\$ 634,399
Plan fiduciary net position as a percentage of the total pension liability	78.09%
Covered-employee payroll	\$ 511,831
School Division's net pension liability as a percentage of covered-employee payroll	123.95%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

City of Covington, Virginia
 Schedule of Employer's Share of Net Pension Liability VRS Teacher Retirement Plan
 For the Year Ended June 30, 2015*

	2014
Employer's Proportion of the Net Pension Liability (Asset)	0.07007%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 8,468,000
Employer's Covered-Employee Payroll	5,125,379
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	165.22%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.88%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

City of Covington, Virginia
 Schedule of Employer Contributions
 For the Year Ended June 30, 2015

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
Primary Government					
2015	\$ 603,214	\$ 603,214	\$ -	\$ 3,552,497	16.98%
Component Unit School Board (nonprofessional)					
2015	\$ 76,341	\$ 76,341	\$ -	\$ 476,240	16.03%
Component Unit School Board (professional)					
2015	\$ 708,000	\$ 708,000	\$ -	\$ 4,891,913	14.50%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

City of Covington, Virginia
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Changes of benefit terms - There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

Component Unit School Board - Professional Employees

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

Other Supplementary Information

City of Covington, Virginia
School Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Revenue from the use of money and property	\$ 11,271	\$ 11,271	\$ 289	\$ (10,982)
EXPENDITURES				
Debt service:				
Interest and other fiscal charges	\$ -	\$ 33	\$ 33	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ 11,271	\$ 11,238	\$ 256	\$ (10,982)
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ (12)	\$ (11)	\$ 1
Net change in fund balances	\$ 11,271	\$ 11,226	\$ 245	\$ (10,981)
Fund balances - beginning	587	587	586	(1)
Fund balances - ending	\$ 11,858	\$ 11,813	\$ 831	\$ (10,982)

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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ -	\$ 75	\$ 61	\$ (14)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ 75	\$ 61	\$ (14)
Net change in fund balances	\$ -	\$ 75	\$ 61	\$ (14)
Fund balances - beginning	-	1,012,684	1,012,683	(1)
Fund balances - ending	\$ -	\$ 1,012,759	\$ 1,012,744	\$ (15)

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD

MAJOR GOVERNMENTAL FUNDS

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

City of Covington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2015

		<u>School Operating Fund</u>
ASSETS		
Cash and cash equivalents	\$	591,679
Cash in custody of others		48,057
Receivables (net of allowance for uncollectibles):		
Accounts receivable		5,619
Due from other governmental units		349,062
Inventories		6,244
Prepaid items		4,616
Total assets		<u>\$ 1,005,277</u>
LIABILITIES		
Accrued liabilities		770,772
Due to primary government		207,016
Total liabilities		<u>\$ 977,788</u>
FUND BALANCES		
Nonspendable:		
Prepaid items	\$	4,616
Inventory		6,244
Restricted:		
Cafeteria		(26,581)
Assigned:		
Textbook Funds		47,826
Unassigned		(4,616)
Total fund balances		<u>\$ 27,489</u>
Total liabilities and fund balances		<u>\$ 1,005,277</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Total fund balances per above	\$	27,489
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	\$	89,663
Buildings and improvements		1,844,084
Machinery, equipment, and vehicles		245,241
		<u>2,178,988</u>
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Items related to measurement of net pension liability		(1,396,365)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and,		
		784,341
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences	\$	(363,933)
Net OPEB obligation		(225,200)
Net pension liability		(9,102,399)
Changes in proportionate share of net pension liability		(88,000)
		<u>(9,779,532)</u>
Net position of governmental activities		<u>\$ (8,185,079)</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, 2015

		<u>School Operating Fund</u>
REVENUES		
Revenue from the use of money and property	\$	2,276
Charges for services		81,618
Miscellaneous		71,303
Recovered costs		43,904
Intergovernmental:		
Local government		3,717,586
Commonwealth		6,051,216
Federal		868,679
Total revenues	<u>\$</u>	<u>10,836,582</u>
EXPENDITURES		
Current:		
Education	\$	10,298,787
Capital projects		657,271
Total expenditures	<u>\$</u>	<u>10,956,058</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$</u>	<u>(119,476)</u>
Net change in fund balances	\$	(119,476)
Fund balances - beginning		<u>146,965</u>
Fund balances - ending	<u>\$</u>	<u>27,489</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	\$	(119,476)
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 capital outlays exceeded the depreciation in the current period.		
Capital asset additions	\$	456,603
Depreciation expense		<u>(144,929)</u>
		311,674
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred inflows related to the measurement of the net pension liability/asset		(1,484,365)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.		
(Increase) decrease in compensated absences	\$	10,957
(Increase) decrease in net OPEB obligation		(15,100)
Change in net pension liability/asset		1,471,047
Change in deferred outflows related to pensions		<u>94,629</u>
		<u>1,561,533</u>
Change in net position of governmental activities	<u>\$</u>	<u>269,366</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, 2015

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 500	\$ 500	\$ 2,276	\$ 1,776
Charges for services	505,250	505,250	81,618	(423,632)
Miscellaneous	45,352	80,352	71,303	(9,049)
Recovered costs	55,000	55,000	43,904	(11,096)
Intergovernmental:				
Local government	3,738,613	4,192,613	3,717,586	(475,027)
Commonwealth	5,882,065	6,016,017	6,051,216	35,199
Federal	858,463	900,469	868,679	(31,790)
Total revenues	<u>\$ 11,085,243</u>	<u>\$ 11,750,201</u>	<u>\$ 10,836,582</u>	<u>\$ (913,619)</u>
EXPENDITURES				
Current:				
Education	\$ 10,541,743	\$ 10,703,901	\$ 10,298,787	\$ 405,114
Capital projects	543,500	1,046,300	657,271	389,029
Total expenditures	<u>\$ 11,085,243</u>	<u>\$ 11,750,201</u>	<u>\$ 10,956,058</u>	<u>\$ 794,143</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (119,476)</u>	<u>\$ (119,476)</u>
Net change in fund balances	\$ -	\$ -	\$ (119,476)	\$ (119,476)
Fund balances - beginning	-	-	146,965	146,965
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,489</u>	<u>\$ 27,489</u>

Supporting Schedules

City of Covington, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2015

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,988,434	\$ 1,988,434	\$ 1,968,623	\$ (19,811)
Real and personal public service corporation taxes	1,694,524	1,694,524	1,903,821	209,297
Personal property taxes	937,008	937,008	926,067	(10,941)
Mobile home taxes	8,742	8,742	7,063	(1,679)
Machinery and tools taxes	2,948,293	2,948,293	2,938,724	(9,569)
Penalties	35,000	35,000	130,964	95,964
Interest and fees	25,000	25,000	61,013	36,013
Total general property taxes	<u>\$ 7,637,001</u>	<u>\$ 7,637,001</u>	<u>\$ 7,936,275</u>	<u>\$ 299,274</u>
Other local taxes:				
Local sales and use taxes	\$ 1,300,000	\$ 1,300,000	\$ 1,239,277	\$ (60,723)
Consumers' utility taxes	415,000	415,000	425,504	10,504
Consumption taxes	24,500	24,500	23,228	(1,272)
Business license taxes	550,000	550,000	568,657	18,657
Motor vehicle licenses	135,000	135,000	134,756	(244)
Bank stock taxes	141,000	141,000	196,173	55,173
Recordation tax	27,000	27,000	3,444	(23,556)
Hotel and motel room taxes	12,000	12,000	6,679	(5,321)
Restaurant food taxes	910,000	910,000	951,890	41,890
Tobacco taxes	115,000	115,000	107,369	(7,631)
Total other local taxes	<u>\$ 3,629,500</u>	<u>\$ 3,629,500</u>	<u>\$ 3,656,977</u>	<u>\$ 27,477</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 750	\$ 750	\$ 462	\$ (288)
Dog pound fees	50	50	336	286
Special use permits	50	50	55	5
Zoning and subdivision permits	200	200	1,066	866
Building permits	10,100	10,100	10,524	424
Sign permits	100	100	220	120
Other permits and licenses	51	51	1,949	1,898
Total permits, privilege fees, and regulatory licenses	<u>\$ 11,301</u>	<u>\$ 11,301</u>	<u>\$ 14,612</u>	<u>\$ 3,311</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 6,500	\$ 6,500	\$ 6,035	\$ (465)
Revenue from use of money and property:				
Revenue from use of money	\$ 27,300	\$ 27,300	\$ 30,020	\$ 2,720
Revenue from use of property	13,300	13,300	13,310	10
Total revenue from use of money and property	<u>\$ 40,600</u>	<u>\$ 40,600</u>	<u>\$ 43,330</u>	<u>\$ 2,730</u>
Charges for services:				
Maintenance of highways	\$ -	\$ 60,997	\$ 60,997	\$ -
Charges for fire and rescue services	410,000	410,000	479,477	69,477
Charges for sanitation and waste removal	792,000	792,000	814,584	22,584
Charges for parks and recreation	40,700	40,700	52,369	11,669
Charges for landfill closure	45,650	45,650	58,763	13,113
Charges for cemetery	41,500	41,500	51,525	10,025
Charges for other services	7,800	7,800	578	(7,222)
Total charges for services	<u>\$ 1,337,650</u>	<u>\$ 1,398,647</u>	<u>\$ 1,518,293</u>	<u>\$ 119,646</u>
Miscellaneous revenue:				
Miscellaneous	\$ 750	\$ 131,371	\$ 131,239	\$ (132)

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2015

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (continued)				
Recovered costs:				
CSA recoveries	\$ -	\$ -	\$ 2,269	\$ 2,269
Other recovered costs	13,200	13,200	7,708	(5,492)
Total recovered costs	<u>\$ 13,200</u>	<u>\$ 13,200</u>	<u>\$ 9,977</u>	<u>\$ (3,223)</u>
Total revenue from local sources	<u>\$ 12,676,502</u>	<u>\$ 12,868,120</u>	<u>\$ 13,316,738</u>	<u>\$ 448,618</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicle carriers' tax	\$ 17,200	\$ 17,200	\$ 17,355	\$ 155
Mobile home titling tax	2,500	2,500	690	(1,810)
Motor vehicle rental tax	22,800	22,800	22,781	(19)
State recordation tax	-	-	3,976	3,976
Telecommunications taxes	295,000	295,000	309,628	14,628
Personal property tax relief funds	538,992	538,992	538,992	-
Total noncategorical aid	<u>\$ 876,492</u>	<u>\$ 876,492</u>	<u>\$ 893,422</u>	<u>\$ 16,930</u>
Categorical aid:				
Shared expenses:				
Commissioner of revenue	\$ 71,000	\$ 71,000	\$ 73,043	\$ 2,043
Treasurer	68,000	68,000	67,196	(804)
Registrar/electoral board	35,000	35,000	29,911	(5,089)
Total shared expenses	<u>\$ 174,000</u>	<u>\$ 174,000</u>	<u>\$ 170,150</u>	<u>\$ (3,850)</u>
Other categorical aid:				
Welfare payments	\$ 206,151	\$ 206,151	\$ 80,609	\$ (125,542)
CSA payments	776,873	776,873	726,034	(50,839)
Criminal justice grant	257,846	257,846	227,323	(30,523)
Litter control grant	6,000	6,120	6,119	(1)
Technology E-911 grants	36,000	36,000	41,224	5,224
Fire program	16,000	36,000	20,000	(16,000)
Asset forfeiture	5,500	5,500	1,123	(4,377)
Emergency four for life	5,200	5,200	5,197	(3)
Law enforcement block grant	3,713	4,363	3,713	(650)
State highway payments	910,000	910,000	988,820	78,820
Victim-witness grant	17,965	17,965	16,770	(1,195)
E-911 grant program - wireless trunking	8,250	8,250	8,136	(114)
Other State funds	80,025	80,025	91	(79,934)
Total other categorical aid	<u>\$ 2,329,523</u>	<u>\$ 2,350,293</u>	<u>\$ 2,125,159</u>	<u>\$ (225,134)</u>
Total categorical aid	<u>\$ 2,503,523</u>	<u>\$ 2,524,293</u>	<u>\$ 2,295,309</u>	<u>\$ (228,984)</u>
Total revenue from the Commonwealth	<u>\$ 3,380,015</u>	<u>\$ 3,400,785</u>	<u>\$ 3,188,731</u>	<u>\$ (212,054)</u>

City of Covington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2015

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Victim witness	\$ 39,988	\$ 39,988	\$ 36,910	\$ (3,078)
Transportation enhancement grant	-	485,968	-	(485,968)
DMV grant	19,500	19,500	6,989	(12,511)
Bureau of justice	1,000	1,000	-	(1,000)
Vol fire assistance program grant	2,000	2,000	1,500	(500)
Public assistance and welfare administration	190,294	190,294	73,401	(116,893)
Total categorical aid	<u>\$ 252,782</u>	<u>\$ 738,750</u>	<u>\$ 118,800</u>	<u>\$ (619,950)</u>
Total revenue from the federal government	<u>\$ 252,782</u>	<u>\$ 738,750</u>	<u>\$ 118,800</u>	<u>\$ (619,950)</u>
Total General Fund	<u>\$ 16,309,299</u>	<u>\$ 17,007,655</u>	<u>\$ 16,624,269</u>	<u>\$ (383,386)</u>
Debt Service Fund:				
School Debt Service Reserve Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	<u>\$ 11,271</u>	<u>\$ 11,271</u>	<u>\$ 289</u>	<u>\$ (10,982)</u>
Total School Debt Service Fund	<u>\$ 11,271</u>	<u>\$ 11,271</u>	<u>\$ 289</u>	<u>\$ (10,982)</u>
Capital Projects Fund:				
School Construction Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	<u>\$ -</u>	<u>\$ 75</u>	<u>\$ 61</u>	<u>\$ (14)</u>
Total School Construction Fund	<u>\$ -</u>	<u>\$ 75</u>	<u>\$ 61</u>	<u>\$ (14)</u>
Total Primary Government	<u>\$ 16,320,570</u>	<u>\$ 17,019,001</u>	<u>\$ 16,624,619</u>	<u>\$ (394,382)</u>
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 64	\$ 64
Revenue from the use of property	500	500	2,212	1,712
Total revenue from use of money and property	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 2,276</u>	<u>\$ 1,776</u>
Charges for services:				
Cafeteria sales	<u>\$ 505,250</u>	<u>\$ 505,250</u>	<u>\$ 81,618</u>	<u>\$ (423,632)</u>
Total charges for services	<u>\$ 505,250</u>	<u>\$ 505,250</u>	<u>\$ 81,618</u>	<u>\$ (423,632)</u>
Miscellaneous revenue:				
Miscellaneous	<u>\$ 45,352</u>	<u>\$ 80,352</u>	<u>\$ 71,303</u>	<u>\$ (9,049)</u>
Recovered costs:				
Payments from other localities	<u>\$ 55,000</u>	<u>\$ 55,000</u>	<u>\$ 43,904</u>	<u>\$ (11,096)</u>
Total recovered costs	<u>\$ 55,000</u>	<u>\$ 55,000</u>	<u>\$ 43,904</u>	<u>\$ (11,096)</u>
Total revenue from local sources	<u>\$ 606,102</u>	<u>\$ 641,102</u>	<u>\$ 199,101</u>	<u>\$ (442,001)</u>
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Covington, Virginia	<u>\$ 3,738,613</u>	<u>\$ 4,192,613</u>	<u>\$ 3,717,586</u>	<u>\$ (475,027)</u>

City of Covington, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2015

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Algebra readiness	\$ 18,678	\$ 18,678	\$ 18,675	\$ (3)
VA preschool initiative	163,772	163,772	155,131	(8,641)
At risk payments	139,040	142,213	144,466	2,253
Basic school aid	2,806,524	2,881,917	2,940,700	58,783
Early reading intervention	34,163	34,163	34,158	(5)
Education technology payment	153,600	175,000	104,607	(70,393)
Fringe benefits	581,536	591,152	600,644	9,492
Gifted and talented	29,077	29,733	30,229	496
ISAEP program	7,859	7,859	7,859	-
National board certification	-	-	2,500	2,500
Primary class size	204,222	207,828	214,889	7,061
Remedial education	155,498	159,009	161,661	2,652
School food	10,514	10,514	9,251	(1,263)
Remedial summer education	24,633	24,633	35,730	11,097
Share of state sales tax	946,905	950,250	958,655	8,405
Special education	465,035	475,528	484,589	9,061
Special education - foster children	13,263	13,263	13,004	(259)
Textbook payment	60,821	62,195	63,232	1,037
Vocational education	61,314	62,699	63,745	1,046
Vocational education - equipment	2,475	2,475	2,623	148
Other categorical aid	3,136	3,136	4,868	1,732
Total categorical aid	<u>\$ 5,882,065</u>	<u>\$ 6,016,017</u>	<u>\$ 6,051,216</u>	<u>\$ 35,199</u>
Total revenue from the Commonwealth	<u>\$ 5,882,065</u>	<u>\$ 6,016,017</u>	<u>\$ 6,051,216</u>	<u>\$ 35,199</u>
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 257,349	\$ 257,349	\$ 234,038	\$ (23,311)
Title VI, rural and low income schools	-	17,006	17,006	-
Title VI-B, special education flow-through	220,757	220,757	236,574	15,817
Vocational education	18,084	18,084	15,364	(2,720)
Title VI-B, special education pre-school	10,273	10,273	9,941	(332)
Gear-up VA project	-	25,000	21,767	(3,233)
Title II, Part A	52,000	52,000	50,315	(1,685)
School breakfast program	25,000	25,000	-	(25,000)
School lunch program	275,000	275,000	266,691	(8,309)
School lunch commodities	-	-	16,983	16,983
Total categorical aid	<u>\$ 858,463</u>	<u>\$ 900,469</u>	<u>\$ 868,679</u>	<u>\$ (31,790)</u>
Total revenue from the federal government	<u>\$ 858,463</u>	<u>\$ 900,469</u>	<u>\$ 868,679</u>	<u>\$ (31,790)</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 11,085,243</u>	<u>\$ 11,750,201</u>	<u>\$ 10,836,582</u>	<u>\$ (913,619)</u>

City of Covington, Virginia
 Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2015

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
City council	\$ 44,118	\$ 41,482	\$ 41,478	\$ 4
City clerk	14,192	16,634	16,601	33
Total legislative	<u>\$ 58,310</u>	<u>\$ 58,116</u>	<u>\$ 58,079</u>	<u>\$ 37</u>
General and financial administration:				
City manager	\$ 190,989	\$ 187,005	\$ 186,634	\$ 371
Information technology	69,900	69,228	69,225	3
Legal services	50,025	58,051	57,518	533
Commissioner of revenue	223,628	221,970	215,429	6,541
Independent auditors	57,956	48,668	48,668	-
Treasurer	289,425	320,369	318,634	1,735
Central accounting	413,766	1,070,355	420,533	649,822
Board of Assessors	74,000	72,652	71,161	1,491
Total general and financial administration	<u>\$ 1,369,689</u>	<u>\$ 2,048,298</u>	<u>\$ 1,387,802</u>	<u>\$ 660,496</u>
Board of elections:				
Electoral board and officials	\$ 61,950	\$ 62,529	\$ 62,600	\$ (71)
Total general government administration	<u>\$ 1,489,949</u>	<u>\$ 2,168,943</u>	<u>\$ 1,508,481</u>	<u>\$ 660,462</u>
Judicial administration:				
Courts:				
Circuit court	\$ 15,905	\$ 15,905	\$ 10,832	\$ 5,073
General district court	5,355	5,705	5,705	-
Magistrates office	4,000	4,000	1,355	2,645
Clerk of the circuit court	37,129	37,893	37,893	-
Sheriff (court)	63,805	62,691	55,502	7,189
Joint Services	139,696	139,696	139,696	-
Total courts	<u>\$ 265,890</u>	<u>\$ 265,890</u>	<u>\$ 250,983</u>	<u>\$ 14,907</u>
Commonwealth's attorney:				
Commonwealth's attorney	\$ 46,544	\$ 46,544	\$ 44,440	\$ 2,104
Total judicial administration	<u>\$ 312,434</u>	<u>\$ 312,434</u>	<u>\$ 295,423</u>	<u>\$ 17,011</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,548,658	\$ 1,574,520	\$ 1,543,213	\$ 31,307
Sheriff	232,785	238,270	238,270	-
Victim witness	56,541	56,541	53,846	2,695
E-911 wireless grant	542,159	617,040	617,870	(830)
Seizure/forfeiture funds	5,500	5,500	1,226	4,274
Total law enforcement and traffic control	<u>\$ 2,385,643</u>	<u>\$ 2,491,871</u>	<u>\$ 2,454,425</u>	<u>\$ 37,446</u>
Fire and rescue services:				
Volunteer fire department	\$ 188,246	\$ 741,946	\$ 236,918	\$ 505,028
Ambulance service	253,775	364,510	289,274	75,236
Total fire and rescue services	<u>\$ 442,021</u>	<u>\$ 1,106,456</u>	<u>\$ 526,192</u>	<u>\$ 580,264</u>
Correction and detention:				
Sheriff (jail)	\$ 217,415	\$ 207,635	\$ 207,024	\$ 611
Probation office	4,000	4,000	3,594	406
Total correction and detention	<u>\$ 221,415</u>	<u>\$ 211,635</u>	<u>\$ 210,618</u>	<u>\$ 1,017</u>
Inspections:				
Building	\$ 102,345	\$ 96,259	\$ 94,972	\$ 1,287

City of Covington, Virginia
 Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2015

Fund, Function, Activity, and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Public safety: (continued)				
Other protection:				
Animal control	\$ 114,434	\$ 117,630	\$ 117,712	\$ (82)
Medical examiner	50	50	20	30
Total other protection	<u>\$ 114,484</u>	<u>\$ 117,680</u>	<u>\$ 117,732</u>	<u>\$ (52)</u>
Total public safety	<u>\$ 3,265,908</u>	<u>\$ 4,023,901</u>	<u>\$ 3,403,939</u>	<u>\$ 619,962</u>
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Engineer office	\$ 20,000	\$ 2,431	\$ 2,425	\$ 6
Street department	890,708	1,191,993	1,134,960	57,033
Snow and ice removal	22,969	34,498	34,498	-
Traffic engineering	85,466	84,403	84,523	(120)
Street cleaning	2,000	1,303	1,301	2
Street lights	150,000	168,009	168,060	(51)
Transportation enhancement-pedestrian/bridge improvements	-	607,622	-	607,622
Total maintenance of highways, streets, bridges and sidewalks	<u>\$ 1,171,143</u>	<u>\$ 2,090,259</u>	<u>\$ 1,425,767</u>	<u>\$ 664,492</u>
Sanitation and waste removal:				
Refuse collection	\$ 351,350	\$ 481,996	\$ 321,258	\$ 160,738
Refuse disposal	350,507	398,794	400,070	(1,276)
Landfill closure	13,984	7,063	7,061	2
Litter control grant	6,000	6,120	6,120	-
Recycling program	34,072	33,483	33,482	1
Total sanitation and waste removal	<u>\$ 755,913</u>	<u>\$ 927,456</u>	<u>\$ 767,991</u>	<u>\$ 159,465</u>
Maintenance of general buildings and grounds:				
General properties	\$ 272,869	\$ 270,254	\$ 270,285	\$ (31)
Motor vehicular maintenance	224,941	228,127	228,669	(542)
Total maintenance of general buildings and grounds	<u>\$ 497,810</u>	<u>\$ 498,381</u>	<u>\$ 498,954</u>	<u>\$ (573)</u>
Total public works	<u>\$ 2,424,866</u>	<u>\$ 3,516,096</u>	<u>\$ 2,692,712</u>	<u>\$ 823,384</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 97,900	\$ 97,900	\$ 97,790	\$ 110
Alleghany Highlands free clinic	7,000	7,000	7,000	-
Total health	<u>\$ 104,900</u>	<u>\$ 104,900</u>	<u>\$ 104,790</u>	<u>\$ 110</u>
Mental health and mental retardation:				
Alleghany Highlands community services board	\$ 25,000	\$ 25,000	\$ 25,000	\$ -
Welfare:				
Safehomes, Inc.	\$ 2,000	\$ 2,000	\$ 2,000	\$ -
Jackson river enterprise	12,000	12,000	12,000	-
Feeding America	600	600	600	-
Alleghany Highlands CSA foster care	1,038,400	1,038,400	1,013,629	24,771
HOPE, Inc.	500	500	500	-
Social Services	520,534	520,534	318,952	201,582
Other welfare	20,000	20,000	43,404	(23,404)
Total welfare	<u>\$ 1,594,034</u>	<u>\$ 1,594,034</u>	<u>\$ 1,391,085</u>	<u>\$ 202,949</u>
Total health and welfare	<u>\$ 1,723,934</u>	<u>\$ 1,723,934</u>	<u>\$ 1,520,875</u>	<u>\$ 203,059</u>
Education:				
Other instructional costs:				
Contributions to Community College	\$ 1,500	\$ 1,500	\$ 1,500	\$ -
Contribution to City School Board	3,738,613	4,192,613	3,717,586	475,027
Total education	<u>\$ 3,740,113</u>	<u>\$ 4,194,113</u>	<u>\$ 3,719,086</u>	<u>\$ 475,027</u>

City of Covington, Virginia
 Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2015

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Parks, recreation, and cultural:				
Parks and recreation:				
Supervision of parks and recreation	\$ 1,004,125	\$ 1,227,151	\$ 1,224,242	\$ 2,909
Cultural enrichment:				
Senior center	\$ 121,430	\$ 90,530	\$ 88,835	\$ 1,695
Cemetery	207,456	245,966	192,802	53,164
League of older Americans	2,429	2,429	2,429	-
YMCA	3,100	3,100	-	3,100
Alleghany Highlands arts council	7,200	14,900	14,700	200
Alleghany Highlands arts/craft center	2,800	2,800	2,800	-
Total cultural enrichment	<u>\$ 344,415</u>	<u>\$ 359,725</u>	<u>\$ 301,566</u>	<u>\$ 58,159</u>
Library:				
Contribution to regional library	\$ 110,598	\$ 110,598	\$ 110,598	\$ -
Total parks, recreation, and cultural	<u>\$ 1,459,138</u>	<u>\$ 1,697,474</u>	<u>\$ 1,636,406</u>	<u>\$ 61,068</u>
Community development:				
Planning and community development:				
Planning commission	\$ 7,587	\$ 7,587	\$ 6,906	\$ 681
Redevelopment/housing authority	20,000	20,000	20,000	-
Zoning board	1,444	1,444	290	1,154
Economic development	63,433	76,433	76,352	81
Total planning and community development	<u>\$ 92,464</u>	<u>\$ 105,464</u>	<u>\$ 103,548</u>	<u>\$ 1,916</u>
Environmental management:				
Contribution to soil and water district	\$ 2,500	\$ 2,500	\$ 2,500	\$ -
Cooperative extension program:				
Extension office	\$ 5,000	\$ 5,000	\$ 4,095	\$ 905
Total community development	<u>\$ 99,964</u>	<u>\$ 112,964</u>	<u>\$ 110,143</u>	<u>\$ 2,821</u>
Nondepartmental:				
Contingencies	\$ -	\$ -	\$ 2,642	\$ (2,642)
Meadwestvaco interest refund	-	-	28,046	(28,046)
Total nondepartmental	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,688</u>	<u>\$ (30,688)</u>
Debt service:				
Principal retirement	\$ 411,726	\$ 411,726	\$ 411,725	\$ 1
Interest and other fiscal charges	1,179,472	1,187,222	1,187,226	(4)
Total debt service	<u>\$ 1,591,198</u>	<u>\$ 1,598,948</u>	<u>\$ 1,598,951</u>	<u>\$ (3)</u>
Total General Fund	<u>\$ 16,107,504</u>	<u>\$ 19,348,807</u>	<u>\$ 16,516,704</u>	<u>\$ 2,832,103</u>
Debt Service Fund:				
School Debt Service Fund:				
Debt service:				
Interest and other fiscal charges	\$ -	\$ 33	\$ 33	\$ -
Total School Debt Service Fund	<u>\$ -</u>	<u>\$ 33</u>	<u>\$ 33</u>	<u>\$ -</u>
Total Primary Government	<u>\$ 16,107,504</u>	<u>\$ 19,348,840</u>	<u>\$ 16,516,737</u>	<u>\$ 2,832,103</u>

City of Covington, Virginia
 Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2015

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Education:				
Administration of schools:				
Attendance and health services	\$ 333,519	\$ 336,676	\$ 335,343	\$ 1,333
Executive administration services	316,418	316,418	318,849	(2,431)
Total administration of schools	<u>\$ 649,937</u>	<u>\$ 653,094</u>	<u>\$ 654,192</u>	<u>\$ (1,098)</u>
Instruction costs:				
Instruction costs	<u>\$ 7,670,312</u>	<u>\$ 7,783,037</u>	<u>\$ 7,664,065</u>	<u>\$ 118,972</u>
School food services:				
Administration of school food program	<u>\$ 799,517</u>	<u>\$ 799,517</u>	<u>\$ 525,704</u>	<u>\$ 273,813</u>
Operating costs:				
Pupil transportation	\$ 266,310	\$ 238,210	\$ 231,378	\$ 6,832
Operation and maintenance of school plant	1,037,918	1,123,794	1,134,123	(10,329)
Facilities	117,749	106,249	89,325	16,924
Total operating costs	<u>\$ 1,421,977</u>	<u>\$ 1,468,253</u>	<u>\$ 1,454,826</u>	<u>\$ 13,427</u>
Total education	<u>\$ 10,541,743</u>	<u>\$ 10,703,901</u>	<u>\$ 10,298,787</u>	<u>\$ 405,114</u>
Capital projects:				
School capital projects	<u>\$ 543,500</u>	<u>\$ 1,046,300</u>	<u>\$ 657,271</u>	<u>\$ 389,029</u>
Total Discretely Presented Component Unit - School Board	<u><u>\$ 11,085,243</u></u>	<u><u>\$ 11,750,201</u></u>	<u><u>\$ 10,956,058</u></u>	<u><u>\$ 794,143</u></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
2014-15	\$ 1,509,994	\$ 295,423	\$ 3,366,041	\$ 2,598,684	\$ 1,498,921	\$ 4,304,188	\$ 1,568,825	\$ 110,143	\$ 1,211,614	\$ 1,093,836	\$ 1,459,626	\$ 19,017,295
2013-14	1,569,154	164,988	3,152,116	2,702,655	1,448,418	4,064,623	1,515,073	77,718	1,135,754	1,114,862	1,256,623	18,201,984
2012-13	1,401,609	124,651	2,889,561	2,837,163	1,351,070	4,292,522	1,400,941	99,723	1,003,044	1,304,304	1,206,873	17,911,461
2011-12	1,438,892	123,380	3,021,155	2,700,887	1,758,368	5,874,905	1,212,345	70,625	1,052,480	1,173,197	1,066,781	19,493,015
2010-11	1,534,458	134,998	2,955,125	3,425,828	1,765,361	4,683,660	1,307,295	79,316	1,198,756	1,213,104	994,309	19,292,210
2009-10	1,483,169	122,901	2,819,474	1,913,115	1,700,110	3,825,555	1,320,420	99,201	1,256,643	1,322,656	998,491	16,861,735
2008-09	1,580,103	61,292	2,979,472	3,802,359	1,494,392	4,551,266	1,195,610	110,214	864,835	1,243,549	1,004,442	18,887,534
2007-08	1,429,516	78,185	2,770,525	3,824,813	1,361,609	4,183,893	1,220,322	107,562	894,475	1,244,985	976,235	18,092,120
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

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

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES						
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Gain on Sale of Capital Assets	Total
2014-15	\$ 5,009,483	\$ 2,405,973	\$ 55,382	\$ 7,917,708	\$ 3,656,977	\$ 51,153	\$ 140,692	\$ 893,422	\$ -	\$ 20,130,790	
2013-14	4,368,558	2,442,710	632,377	6,969,022	3,660,422	78,598	243,652	899,272	-	19,294,611	
2012-13	4,045,390	2,467,313	468,882	6,763,991	3,979,168	80,082	14,490	893,226	-	18,712,542	
2011-12	4,071,784	2,614,381	1,319,432	7,225,937	3,668,311	49,372	48,748	852,781	-	19,850,746	
2010-11	4,170,379	3,304,823	684,814	7,184,718	3,445,125	66,865	66,814	917,297	7,011	19,847,846	
2009-10	4,165,888	2,618,316	75,794	7,051,615	3,170,222	66,549	186,667	896,005	-	18,231,056	
2008-09	4,006,079	2,696,980	4,900	6,937,869	3,396,974	237,828	94,651	825,521	-	18,200,802	
2007-08	4,074,449	3,076,482	2,800	6,618,780	3,533,607	574,455	124,710	-	-	18,005,283	
2006-07	3,947,907	2,343,564	441,313	6,984,763	3,452,298	79,295	567,379	843,290	-	18,659,809	
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	

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
2014-15	\$ 1,508,481	\$ 295,423	\$ 3,403,939	\$ 2,692,712	\$ 1,520,875	\$ 10,300,287	\$ 1,636,406	\$ 110,143	\$ 657,271	\$ 30,688	\$ 1,598,984	\$ 23,755,209
2013-14	1,442,101	164,988	3,000,898	2,470,238	1,455,490	10,103,530	1,544,455	85,394	333,530	135,264	1,204,549	21,940,437
2012-13	1,366,664	124,651	3,283,642	2,469,270	1,377,241	10,343,711	1,269,112	99,723	226,457	-	1,445,138	22,005,609
2011-12	1,679,198	123,380	3,008,874	2,269,664	1,781,741	10,533,161	1,691,179	70,625	70,148	-	1,725,188	22,953,158
2010-11	1,428,913	134,998	2,715,021	2,527,319	1,790,260	10,189,721	1,280,563	79,316	175,538	11,192	1,808,852	22,141,693
2009-10	1,334,414	122,901	2,955,446	2,696,909	1,724,165	9,833,368	1,484,555	99,201	869,412	-	1,801,162	22,921,533
2008-09	1,391,596	61,292	2,852,747	2,825,693	1,514,709	10,524,500	1,390,990	110,214	13,001,350	20,118	1,562,846	35,256,055
2007-08	1,433,034	78,185	2,589,022	3,877,615	1,397,869	10,692,037	1,329,602	107,562	9,022,652	816	1,548,023	32,076,417
2006-07	1,425,506	94,087	2,582,309	2,985,907	1,338,133	10,062,235	2,237,175	132,564	716,075	3,303	871,293	22,448,587
2005-06	1,225,103	96,343	2,449,642	2,585,665	1,939,910	9,760,811	1,864,709	147,992	813,456	5,674	1,291,859	22,181,164

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

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

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

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
2014-15	\$ 7,936,275	\$ 3,656,977	\$ 14,612	\$ 6,035	\$ 45,956	\$ 1,599,911	\$ 202,542	\$ 53,881	\$ 10,227,426	\$ 23,743,615
2013-14	6,883,416	3,660,422	11,102	7,488	71,181	1,185,004	316,127	109,596	10,000,137	22,244,473
2012-13	6,734,155	3,979,168	14,758	7,613	80,839	986,993	266,252	85,741	9,796,144	21,951,663
2011-12	7,227,463	3,668,311	30,126	12,163	50,459	1,142,389	308,716	80,095	9,962,710	22,482,432
2010-11	7,149,152	3,445,125	23,668	17,975	68,253	1,122,088	292,012	60,833	10,053,004	22,232,110
2009-10	7,058,693	3,170,222	9,584	33,647	67,929	946,815	213,963	175,928	9,813,945	21,490,726
2008-09	6,915,610	3,396,974	10,169	42,445	240,204	1,121,997	178,158	288,769	9,786,230	21,980,556
2007-08	6,949,940	3,533,607	15,574	32,644	575,228	1,095,585	122,925	171,692	9,546,958	22,044,153
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

(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	
	\$		\$		%		\$		\$		%		\$		%	
2014-15	\$ 8,280,409		\$ 8,140,031		98.30%		\$ 143,259		\$ 8,283,290		100.03%		\$ 600,070		7.25%	
2013-14	7,368,660		7,235,703		98.20%		117,095		7,352,798		99.78%		579,245		7.86%	
2012-13	7,676,550		7,565,315		98.55%		86,064		7,651,379		99.67%		473,991		6.17%	
2011-12	7,683,731		7,605,442		98.98%		94,049		7,699,491		100.21%		453,285		5.90%	
2010-11	7,626,798		7,545,962		98.94%		80,400		7,626,362		99.99%		427,671		5.61%	
2009-10	7,535,231		7,396,523		98.16%		130,551		7,527,074		99.89%		439,189		5.83%	
2008-09	7,383,021		7,300,339		98.88%		67,143		7,367,482		99.79%		407,773		5.52%	
2007-08	7,412,981		6,803,543		91.78%		73,600		6,877,143		92.77%		512,105		6.91%	
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%	

(1) Exclusive of penalties and interest.

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

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

Table 6

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

Fiscal Year	Real Estate (1)	Personal Property and Mobile Homes	Machinery and Tools	Public Utility (2)		Total
				Real Estate	Personal Property	
2014-15	\$ 274,495,282	\$ 27,925,181	\$ 51,856,052	\$ 269,623,842	\$ -	623,900,357
2013-14	274,016,639	26,072,593	55,549,130	100,018,610	-	455,656,972
2012-13	272,817,085	27,087,296	74,874,215	25,072,535	110,208	399,961,339
2011-12	271,839,495	26,780,775	76,975,965	23,878,024	18,249	399,492,508
2010-11	283,502,400	26,077,480	76,660,640	22,727,986	89,861	409,058,367
2009-10	282,219,900	24,892,990	76,096,510	21,401,377	35,464	404,646,241
2008-09	281,865,500	22,555,370	75,747,170	21,429,843	72,863	401,670,746
2007-08	280,613,600	22,563,190	76,476,640	19,700,864	7,786	399,362,080
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

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

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

Table 7

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

Fiscal Year	Real Estate	Mobile Homes	Personal Property	Machinery and Tools
2014-15	0.71	0.71	5.60	5.52
2013-14	0.69	0.69	5.60	5.52
2012-13	0.69	0.69	5.60	5.52
2011-12	0.69	0.69	5.60	5.52
2010-11	0.66	0.66	5.60	5.52
2009-10	0.66	0.66	5.60	5.52
2008-09	0.66	0.66	5.60	5.52
2007-08	0.66	0.66	5.60	5.52
2006-07	0.66	0.66	5.60	5.52
2005-06	0.66	0.66	5.60	5.52

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2014-15	5,961	623,900	\$ 25,238,699	4.05%	4,234
2013-14	5,961	455,657	25,577,766	5.61%	4,291
2012-13	5,961	399,961	28,957,022	7.24%	4,858
2011-12	5,961	399,493	35,499,359	8.89%	5,955
2010-11	5,961	409,058	31,830,269	7.78%	5,340
2009-10	6,303	404,646	31,497,499	7.78%	4,997
2008-09	6,303	401,671	32,624,875	8.12%	5,176
2007-08	6,303	399,362	33,812,244	8.47%	5,364
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

(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
2014-15	\$ 411,725	\$ 1,187,259	\$ 1,598,984	\$ 23,755,209	6.73%
2013-14	314,436	890,113	1,204,549	21,940,437	5.49%
2012-13	473,155	971,983	1,445,138	22,005,609	6.57%
2011-12	532,023	1,193,165	1,725,188	22,953,158	7.52%
2010-11	551,540	1,257,312	1,808,852	22,141,693	8.17%
2009-10	569,703	1,231,459	1,801,162	22,921,533	7.86%
2008-09	668,841	894,005	1,562,846	35,256,055	4.43%
2007-08	650,800	237,312	888,112	32,076,417	2.77%
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%

(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, Virginia
Computation of Legal Debt Margin
At June 30, 2015

Legal Debt Limit:		
10% of Assessed Value of Taxable Real Estate	\$274,495,282	\$ 27,449,528
Deduct:		
Debt Payable		13,897,000
Legal Margin for Creation of Additional Debt		<u>\$ 13,552,528</u>

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit and each major fund of the City of Covington, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Covington, Virginia's basic financial statements and have issued our report thereon dated December 11, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. [2015-001]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Covington, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Covington, Virginia's Response to Findings

City of Covington, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Covington, Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Robinson, Fauser, Co. Associates

Blacksburg, Virginia
December 11, 2015

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Covington, Virginia's compliance with the types of compliance requirements described in the *OMB 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, 2015. City of Covington, Virginia, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Covington, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Covington, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Covington, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the City of Covington, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Covington, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Faimer, Co. Associates

Blacksburg, Virginia
December 11, 2015

City of Covington, Virginia
 Schedule of Expenditures of Federal Awards (SEFA)
 Year Ended June 30, 2015

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>Department of Forestry:</i>			
Cooperative Forestry Assistance	10.664	50105	\$ 1,500
Child Nutrition Cluster:			
<i>Department of Agriculture:</i>			
Food Distribution-Schools (Note 3)	10.555	Not available	\$ 16,983
<i>Department of Education:</i>			
National School Lunch Program	10.555	40623	\$ 215,041
School Breakfast Program	10.553	40591	68,633
Total Department of Agriculture			<u>\$ 285,174</u>
<i>DEPARTMENT OF EDUCATION:</i>			
Pass Through Payments:			
<i>Department of Education:</i>			
Title I - Grants to Local Educational Agencies	84.010	42901	\$ 234,038
Special Education Cluster:			
Special Education - Grants to States	84.027	43071	236,574
Special Education - Preschool Grants	84.173	62521	9,941
Career and Technical Education - Basic Grants to States	84.048	61095	15,364
Improving Teacher Quality - State Grants	84.367	61480	50,315
Rural Education	84.358	43481	17,006
GEAR-UP Va Project	84.344	Not available	21,767
Total Department of Education			<u>\$ 585,005</u>
<i>DEPARTMENT OF JUSTICE:</i>			
Pass Through Payments:			
<i>Department of Criminal Justice Services:</i>			
Crime Victim Assistance	16.575	46000, 66000	\$ 36,910
<i>DEPARTMENT OF TRANSPORTATION:</i>			
Pass Through Payments:			
<i>Department of Motor Vehicles:</i>			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	K8 14 54302	\$ 472
Alcohol Open Container Requirements	20.607	154AL 15 55081	3,943
State and Community Highway Safety	20.600	SC 14 54421, SC 15 55385	2,574
Total Department of Transportation			<u>\$ 6,989</u>
<i>DEPARTMENT OF HEALTH AND HUMAN SERVICES:</i>			
Pass Through Payments:			
<i>Department of Social Services:</i>			
Promoting Safe and Stable Families	93.556	0950113, 0950114	\$ 7,339
Temporary Assistance for Needy Families	93.558	0400113,0400114	11,781
Child Care and Development Block Grant	93.575	0770115	(975)
Foster Care - Title IV-E	93.658	1100114	2,625
Adoption Assistance	93.659	1120114, 1120115	26,488
Social Services Block Grant	93.667	1000114, 1000115	25,616
Chafee Foster Care Independence Program	93.674	9150114, 9150115	527
Total Department of Health and Human Services			<u>\$ 73,401</u>
Total Expenditures of Federal Awards			<u>\$ 987,479</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

Notes to the SEFA follow this page

City of Covington, Virginia
 Schedule of Expenditures of Federal Awards (SEFA)
 Year Ended June 30, 2015

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, 2015. 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 position, or cash flows of the City of Covington, Virginia.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 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, 2015, the Covington City School Board held food commodities totaling \$6,244 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>\$ 118,800</u>
Component Unit School Board:	
School Operating Fund	<u>\$ 868,679</u>
Total Federal Expenditures per Basic Financial Statements	<u>\$ 987,479</u>

City of Covington, Virginia

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
84.010 84.027/84.173	Title I Grants to Local Educational Agencies Special Education Cluster

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

Section II - Financial Statement Findings

2015-001	
Criteria:	A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.
Condition:	The City lacks proper segregation of duties over the following functions: Collections in the Treasurer's office and Accounts Payable and Payroll processes.
Effect of Condition:	There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.
Cause of Condition:	The City lacks the funding to fully support a completely segregated finance department.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section II - Financial Statement Findings (Continued)

2015-001 (Continued)

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

Management's Response: Management acknowledges that internal controls over the functions listed above lack proper segregation of duties and is considering ways to improve its segregation of duties over its accounts payable and payroll processes. In addition, the City acknowledges that the Treasurer's office lacks proper segregation of duties, however, to alleviate same would require additional staff. Due to cost constraint, the City has decided not to address the aforementioned internal control deficiency.

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Audit Findings and Questioned Costs

Financial Statement Finding 2014-001 is repeating during the current year as 2015-001. Financial statement finding 2015-002 was corrected during the current fiscal year.