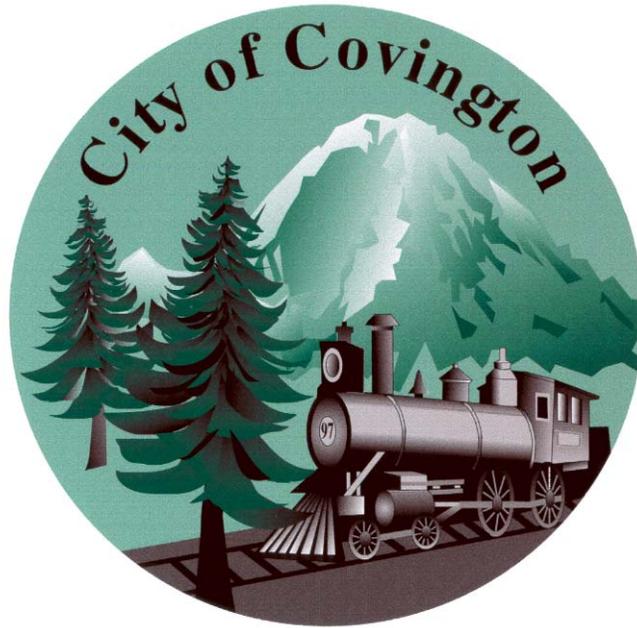


*The City of*  
**COVINGTON**  
WASHINGTON



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2010**

# COMPREHENSIVE ANNUAL FINANCIAL REPORT



## CITY OF COVINGTON, WASHINGTON

FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2010

SUBMITTED BY THE  
FINANCE DEPARTMENT

ROB HENDRICKSON, FINANCE DIRECTOR

CASEY PARKER, ACCOUNTANT

LINDSAY HAGEN, FINANCE SPECIALIST

STACI CLES, ACCOUNTING CLERK

**CITY OF COVINGTON  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INTRODUCTORY SECTION</b>	
Letter of Transmittal	1
City Officials/Staff	6
Organizational Chart	7
Certificate of Achievement for Excellence in Financial Reporting	8
 <b>FINANCIAL SECTION</b>	
Auditor's Opinion	10
Management's Discussion and Analysis	12
 <b><u>Basic Financial Statements</u></b>	
 <b>Government-wide Financial Statements</b>	
Statement of Net Assets	25
Statement of Activities	26
 <b>Fund Financial Statements</b>	
Balance Sheet – Governmental Funds	27
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	29
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	31
 <b>Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual</b>	
General Fund	32
Development Services Fund	33
Parks Fund	34
Street Fund	35
Cumulative Reserve Fund	36
Real Estate Excise Tax 1 <sup>st</sup> Qtr % Fund	37
Real Estate Excise Tax 2 <sup>nd</sup> Qtr % Fund	38
Surface Water Management Fund	39
 Statement of Net Assets – Proprietary Funds	 40
Statement of Revenues, Expenses, and Changes in Fund Net Assets – All Proprietary Fund Types	41
Statement of Cash Flows – All Proprietary Fund Types	42

**TABLE OF CONTENTS**  
**(continued)**

<b>Notes to the Financial Statements</b>	<u>Page</u>	
Note 1: Summary of Significant Accounting Policies	44	
Note 2: Reconciliation of Government-wide and Fund Financial Statements	51	
Note 3: Stewardship, Compliance, and Accountability	52	
Note 4: Deposits and Investments	52	
Note 5: Property Taxes	55	
Note 6: Capital Assets	56	
Note 7: Pension Plans	57	
Note 8: Risk Management	58	
Note 9: Long-Term Debt and Leases	60	
Note 10: Contingencies and Litigation	63	
Note 11: Interfund Activity	64	
Note 12: Restricted Net Assets	64	
Note 13: Other Postemployment Benefit Plans	64	
<b><u>Combining and Individual Fund Statements and Schedules</u></b>		
<b>Nonmajor Governmental Funds</b>		
Combining Balance Sheet	67	
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	68	
<b>Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual</b>		
<b>Special Revenue Funds</b>		
Contingency Fund	70	
<b>Debt Service Funds</b>		
LID 99-01 Guaranty Fund	72	
Long-Term Debt Service Fund	73	
<b>Capital Project Funds</b>		
Capital Investment Program Fund	75	
Local Improvement District 99-01 Fund	76	
Local Improvement District 99-01 Fund from Project Inception	77	
<b>Schedule of Revenues – Final Budget and Actual</b>		
General Fund	79	
<b>Internal Service Funds</b>		
Combining Statement of Net Assets	81	
Combining Statement of Revenues, Expenditures, and Changes in Fund Net Assets	82	
Combining Statement of Cash Flows	83	
<b>STATISTICAL SECTION</b>	<u>Table</u>	<u>Page</u>
Net Assets by Component	1	85
Changes in Net Assets	2	86
Governmental Activities Tax Revenues by Source	3	87

**TABLE OF CONTENTS**  
**(continued)**

	<u>Table</u>	<u>Page</u>
Taxable Sales by Category	4	88
Principal Sales Tax Payers	5	89
Sales Tax Rates Direct and Overlapping Governments	6	90
Fund Balances of Governmental Funds	7	91
Changes in Fund Balances of Governmental Funds	8	92
General Governmental Tax Revenues by Source	9	93
Assessed and Estimated Value of Taxable Property	10	94
Property Tax Rates Direct and Overlapping Governments	11	95
Principal Property Tax Payers	12	97
Property Tax Levies and Collections	13	98
Ratios of Outstanding Debt by Type	14	99
Ratios of General Bonded Debt Outstanding	15	100
Computation of Direct and Overlapping Debt	16	101
Legal Debt Margin Information	17	102
Pledged-Revenue Coverage	18	103
Demographic and Economic Statistics	19	104
Principal Employers	20	105
Full-Time Equivalent City Government Employees by Function	21	106
Operating Indicators by Function	22	107
Capital Assets by Function	23	108

# **INTRODUCTORY**



## City of Covington

16720 SE 271<sup>st</sup> Street, Suite 100 • Covington, WA 98042 • (253) 638-1110 • Fax: (253) 638-1122

June 24, 2011

To the Honorable Mayor, Councilmembers, and the Citizens of the City of Covington:

The Finance Department of the City of Covington is proud to submit the City's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2010. This report includes all funds and all financial activities that are considered to be part of the City. Certain other agencies may include the name "Covington" in their title, but are not included in this report as the City has no oversight responsibility. These include, but are not limited to, the Covington Water District, the Covington Chamber of Commerce, and Covington Sports.

This report meets the requirements of RCW 43.09.230, which requires a financial report covering each fiscal year, and is prepared in compliance with Generally Accepted Accounting Principals (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Finance Department. To the best of our knowledge and belief, the data as presented herein is accurate in all material respects and is reported in a manner designed to fairly set forth the financial position and the results of operations of the City's various funds. In addition, all disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Management Staff of the City is responsible for establishing and maintaining a structure of internal control. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that assets of the City are protected from loss, theft, or misuse, and to ensure accounting records are adequate and reliable in order to prepare the financial statements in accordance with Generally Accepted Accounting Principals (GAAP). The concept of reasonable assurance recognizes that the cost of control does not exceed the benefit, and that the evaluation of costs and benefits requires estimates and judgments by management.

State law requires an annual audit of the City's financial statements and records by the Office of the State Auditor. The State Auditor conducts its audit in accordance with Generally Accepted Auditing Standards (GAAS), as established by the American Institute of Certified Public Accountants (AICPA), and provides an independent opinion on the City's financial position, results of operations, and the cash flows of its proprietary fund types. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Covington for the fiscal year ended December 31, 2010, are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principle used and significant estimates made by management, and evaluating the overall financial statement presentation.

The State Auditor is an independent, elected state official. The State Auditor has broad legal authority to inquire into all financial compliance matters. Therefore, such audits by the state are considered to be equal to independent audits made by Certified Public Accounting firms.

The City has been given an unqualified opinion. The auditor's report on the General Purpose Financial Statements (GPFS), including the notes and the combining and individual fund statements and schedules, can be found in the Financial Section of this report.

## **About The City**

The City of Covington is a non-charter optional code City, operating under Section 35A of the Revised Code of Washington. Incorporation occurred on August 31, 1997, and as of April 30, 2010, had an estimated population of 17,640. The City is located in King County, Washington and is approximately 30 miles southeast of Seattle at the intersection of Highway 18 and State Route 516. The City of Covington currently occupies approximately 6.5 square miles.

The City has chosen the Council-Manager form of government, with seven elected Council members. Council members serve four-year staggered terms. The Mayor is elected by the City Council from within the Council. The Council has legislative authority and sets policies for the City. Duties of the Council include, but are not limited to, adopting a comprehensive plan for the City, including a capital improvements plan, and further, adopting an annual budget, ordinances, and resolutions that are necessary to carryout the comprehensive plan. The City Council appoints a City Manager, who has the full responsibility for carrying out Council policies, administering the City's day-to-day operations, and for appointing the heads of the various departments.

The City, at this time, has taken the direction of providing many services through contracting with other governmental agencies and/or the private sector. This will keep the size of City staff relatively small. At this time, those services being contracted out include police protection, portions of street and road maintenance and surface water management, animal control, jail services, and municipal court services. These services are being supplied through various contracts with King County. In addition, various private sector contractors provide the following functions: supplemental city engineering and public defender functions. The Citizens of the City of Covington, on September 16, 1997, did elect to annex into the King County Fire District #37 and the King County Rural Library District for the provision of fire safety services and library services, respectively. The City acquired the Tahoma Pool from King County in 2004 and now provides aquatics programs at the facility which is now called the Covington Aquatic Center at Tahoma. Services currently being provided by City staff include general administration, finance including contract administration, public works administration, engineering management, land use and building regulation, right of way inspection, park development, street and road maintenance, and surface water management. The City's direction of contracting for services does not preclude consideration of other options for providing these services, such as the use of City staff. The City will continually monitor these contracts to be sure that the citizens of Covington are receiving the best, most cost-effective services.

## **Accounting**

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, from an accounting and financial management viewpoint, the City is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently of each other. Each accounting entity is accounted for in a separate "fund." A fund is defined as a fiscal accounting entity with a self-balancing set of accounts, recording cash and other financial resources, together with all related liabilities and residual equities or fund balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The City's accounting records for the general governmental operations are maintained on a modified accrual basis with revenues being recorded when they become both measurable and available to finance expenditures in the current period. Expenditures are recorded when the related fund liability is incurred. The accounting records for the City's Proprietary Funds (Internal Service) are maintained on the accrual basis with revenues recorded when they are earned and expenses recorded when they are incurred.

The Government-wide Financial Statements incorporate all of the City's governmental and business-type activities. These statements are presented using an economic resources measurement focus and employ the

full accrual basis of accounting. Revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash flow. As a result, the Government-wide Financial Statements are similar to and more closely resemble financial statements of private sector businesses.

The City incorporates a variety of budget controls within its accounting system. These controls assure compliance with all legal requirements provided for as part of the budget adoption by the City Council and as a tool for management control. The budget process begins in August when departments submit requests for appropriations. The City Manager uses these requests as a starting point for developing a proposed budget. The City Manager then presents the budget to the Council for their review in early October. The budget must be adopted by December 31, prior to the beginning of a new fiscal year. The Council must hold public hearings prior to adoption. An annual budget is adopted for all funds on a basis consistent with Generally Accepted Accounting Principles (GAAP). The City's annual appropriated budget is adopted at the fund level. The City Manager is authorized to transfer budgeted amounts, as needed, between departments within any fund, and/or between object classes within a department.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and the major special revenue funds (Development Services, Parks, Streets, Cumulative Reserve, Real Estate Excise Tax 1<sup>st</sup> and 2<sup>nd</sup> Qtr % Funds, and Surface Water Management) this comparison is presented in the Basic Financial Statements for the governmental funds. For the other governmental funds and the internal service funds, this comparison is presented in the section following the Notes to the Financial Statements.

## **Cash Management**

Cash temporarily idle during the year was invested in interest bearing bank deposits, U.S. agency issues and the Washington State Local Government Investment Pool. The State Pool is authorized by the State to provide all public agencies a tool to help maximize opportunities for investment of idle cash and to provide maximum safety of funds. The Pool invests primarily in short-term securities allowed by law, with maturities of 60 days or less. All interest earned from investments within the Washington State Local Government Investment Pool is distributed to each fund based on their respective monthly ending cash balances.

Covington's investment policy objectives are to minimize credit and interest rate risks, provide sufficient liquidity to meet cash flow needs while maintaining reasonable yields on its portfolio. In addition, the City's cash and interest bearing bank deposits are insured by federal depository insurance. In accordance with the requirements set by State law, the State Public Deposit Protection Commission also insures deposits with in-state banks.

See Note 4 in the Notes to the Financial Statements for more information on deposits and investments.

## **Financial Condition**

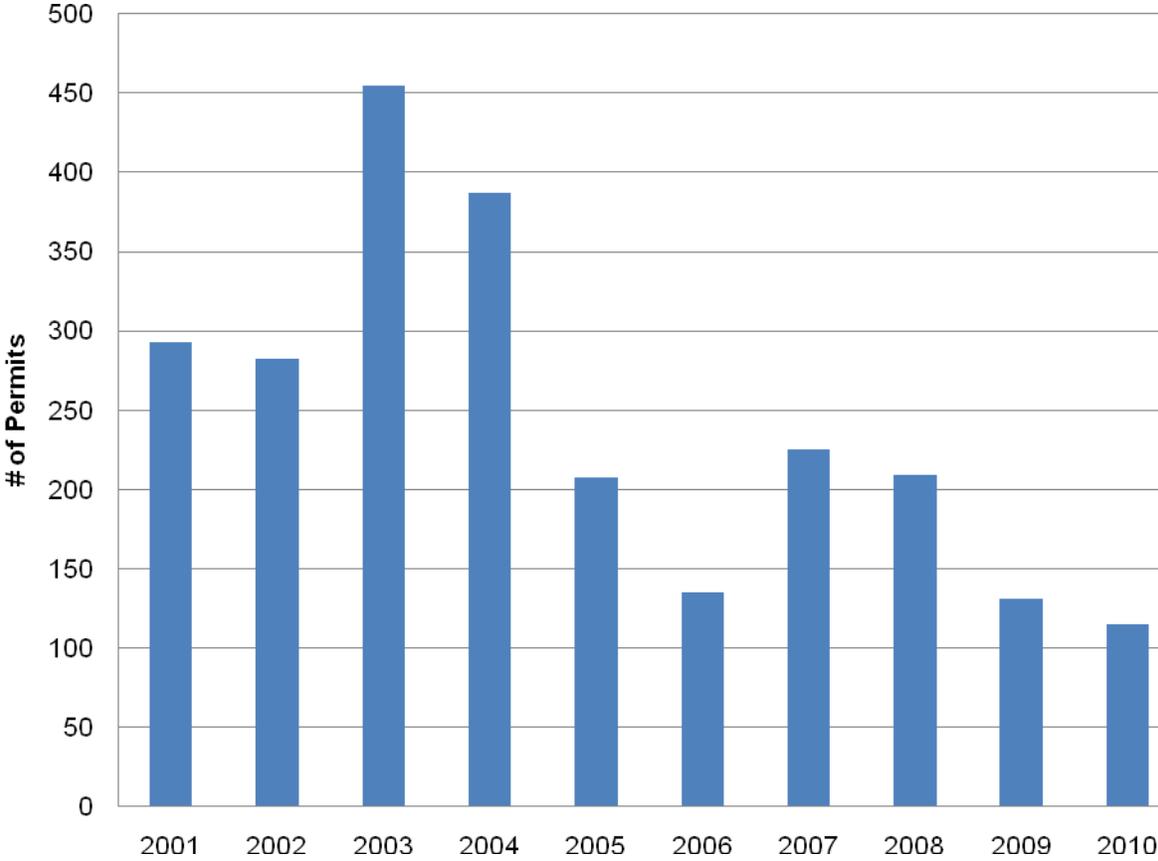
The information presented in the financial statements is perhaps best understood when it is considered from a broader perspective of the specific environment from which the City of Covington operates. The Basic Financial Statements of the City focus on the financial position of the City. That is, they focus on the City's existing resources and any claims on those resources. The City's financial condition, on the other hand, focuses on both existing and future resources and claims on those resources. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our Management Discussion and Analysis Letter, which can be found on pages 12 to 23 of this report.

**Local Economy.** The Washington recovery lost momentum during the summer after showing signs of growth during the spring. Mirroring the national economy, housing and employment are both slumping. The 2011 outlook for employment growth has been cut in half from 2.7% to 1.3%. The expectation is that overall employment will reach its pre-recession peak in the second quarter of 2013.

The Seattle Consumer Price Index (CPI) showed deflation through the first two quarters of 2010. The weak economy and housing costs which fell as a result of the depressed housing market are the factors causing the deflation. However, it appears that inflation should be close to zero in 2010 and picking up in 2011 through 2013.

For Covington, the housing market remains down which is reflected in real estate excise tax receipts, and retail sales continue to be flat. For this economy, however, that is a good thing. Many surrounding cities are experiencing double digit declines in sales tax revenue over previous years. Utility taxes are down for 2010. This could be due to two things: lack of forecasting history creating imprecise budget targets and weather – a mild winter and summer creating less heating and cooling demands.

**City of Covington  
Total Number of Building Permits Issued  
Residential, Commercial, and Other  
Fiscal Years 2001 through 2010**



**Long-term Financial Planning.** Being a smaller municipality with limited resources, the City has approached budgeting and forecasting from a conservative position. Ongoing programs are carefully vetted for viability and value. Surplus funds are used for capital and one-time programs or transferred to reserves.

The City develops and maintains a six-year Financial Forecast that estimates resource and expenditure behavior for five years beyond the current budget period. Revenue estimates are prepared on a conservative

basis to minimize the economic fluctuations that could imperil ongoing service programs during the upcoming budget cycle. Expenditure estimates anticipate contingencies that are reasonably predictable and also differentiate between ongoing expenditures and those that are one-time activities. The forecast is presented and updated at least three times throughout the year as economic and market conditions fluctuate.

This Forecast provides the City's decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions. This planning tool must recognize the effects of economic cycles on the demand for services and the City's resources. To this end, the Forecast differentiates between revenue associated with one-time economic activities and revenues derived as a result of base economic growth. City financial planning ensures the delivery of needed services (many of which become more critical during economic downturns) by assuring adequate reliance on ongoing resources in order to support continued City services during economic downturns.

### **Independent Audit**

State law requires an annual audit of all City financial records and transactions by the State Auditor, an independent elected State official.

### **Financial Statement Award**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Covington for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2009. The City has earned this prestigious award each year since incorporation. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgments**

Preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of Finance Department staff. A special note of thanks is given to Casey Parker - Accountant, Lindsay Hagen - Finance Specialist, and Staci Cles - Accounting Clerk, who served as the main CAFR preparers and coordinators. Further appreciation is extended to City staff, whose cooperation during the year from coding of invoices to preparation of the annual budget helps make life in the Finance Department easier and the accounting records more accurate and reliable.

Finally, I would like to express my appreciation to the Mayor, the City Council, and the City Manager for their leadership, encouragement, interest, and support in conducting the financial operations of the City in a sound and progressive manner.

Respectfully submitted,



Robert M. Hendrickson  
Finance Director

# **CITY OF COVINGTON**

## **CITY COUNCIL**



**Top row (from left to right): Marlla Mhoon, David Lucavish, Jim Scott, and Wayne Snoey**  
**Bottom row (from left to right): Mark Lanza, Mayor Margaret Harto, Mayor Pro Tem Jeff Wagner**

## **CITY MANAGER**

**DEREK MATHESON**

## **FINANCE DEPARTMENT STAFF**

**ROB HENDRICKSON**

**FINANCE DIRECTOR**

**CASEY PARKER**

**ACCOUNTANT**

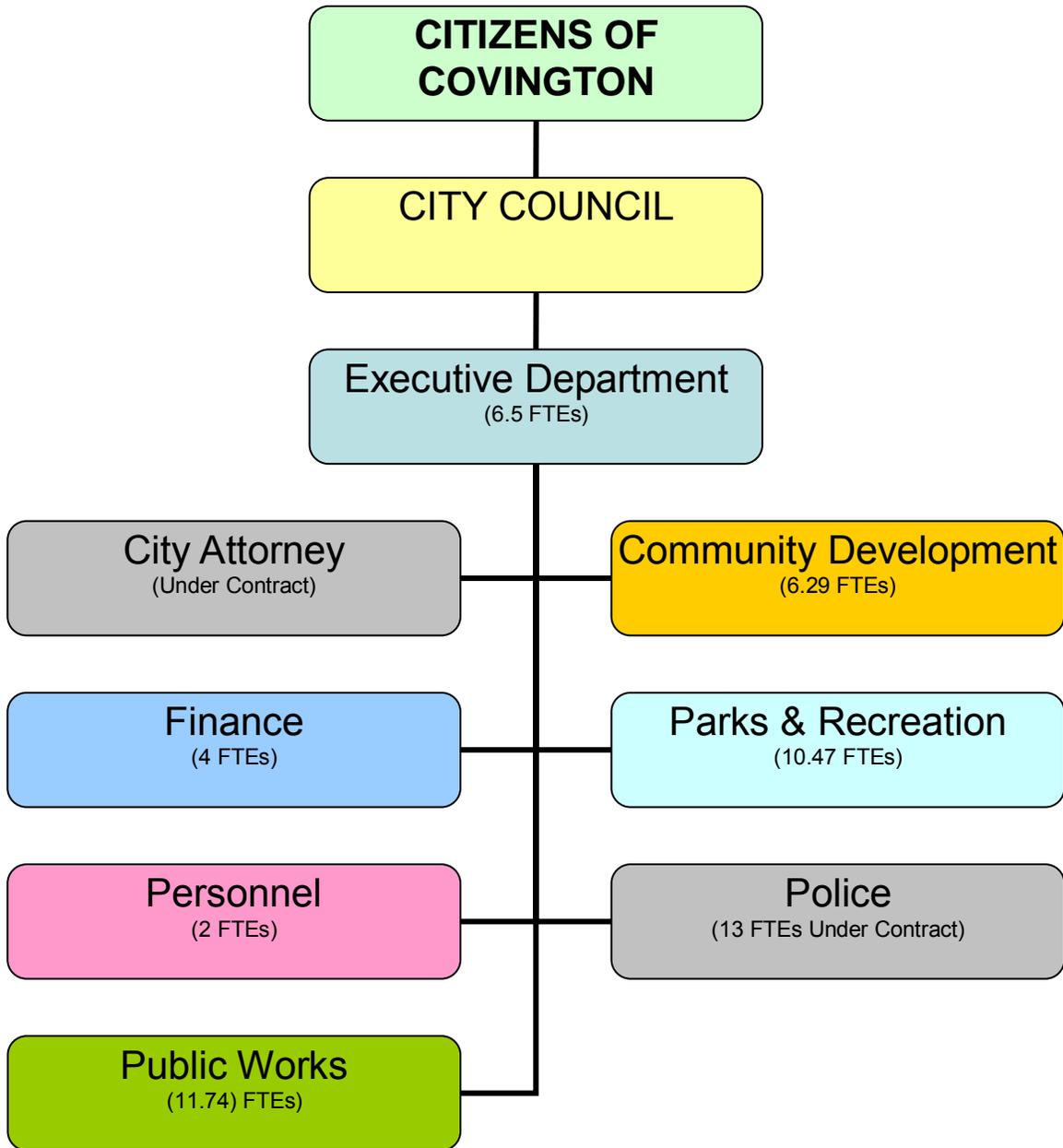
**LINDSAY HAGEN**

**FINANCE SPECIALIST**

**STACI CLES**

**ACCOUNTING CLERK**

~ **CITY OF COVINGTON** ~  
**ORGANIZATION CHART by FUNCTION**  
2010



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Covington  
Washington

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**FINANCIAL**

# City of Covington

## Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2010



**Washington State Auditor**  
**Brian Sonntag**

**INDEPENDENT AUDITOR'S REPORT**

June 24, 2011

Mayor and Council  
City of Covington  
Covington, Washington

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Covington, King County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Covington, King County, Washington, as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, Development Services Fund, Parks Fund, Street Fund, Cumulative Reserve Fund, Real Estate Excise Tax 1st Qtr Fund, Real Estate Excise Tax 2nd Qtr Fund, and Surface Water Management Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 24, 2011, on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 12 through 23 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining and individual fund statements and schedules on pages 67 through 83 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to 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.

The information identified in the table of contents as the Introductory and Statistical Section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is stylized and cursive.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

## Management's Discussion and Analysis

As management of the City of Covington, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Covington for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 1 to 5 of this report.

### Financial Highlights

- The assets of the City exceeded its liabilities on December 31, 2010 by \$45,761,249 (net assets). Of the total net assets, \$8,410,744 is unrestricted and may be used to meet any of the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$4,669,456. This increase is attributable to work in progress, intangibles, and intergovernmental receivables.
- As of December 31, 2010 the City's governmental funds reported a combined ending fund balance of \$8,390,405. Of this, \$801,274 is in the Development Services Fund, \$233,348 is in the Parks Fund, \$592,237 is for maintenance in the Street Fund, \$1,413,039 is in the Cumulative Reserve Fund (CRF), \$70,092 is in the Real Estate Excise 1<sup>st</sup> Qtr % Fund, \$70,092 is in the Real Estate Excise Tax 2<sup>nd</sup> Qtr % Fund, \$1,296,787 is for projects in the Surface Water Management Fund, \$1,072,287 is in the Capital Investment Program Fund, \$17,913 is in the Local Improvement District Fund, \$419,578 is in the Contingency Fund, \$52,168 is in the L.I.D. 99-01 Guaranty Fund, and \$2,351,590 is in the General Fund. Of the combined ending fund balance, the reserved portion is made up of \$86,504 for things such as prepaid items, as well as \$46,010 which is being held in the L.I.D. 99-01 Guaranty Fund.
- As of December 31, 2010 the unreserved portion of the General Fund's fund balance is \$2,286,179. This represents approximately 35% of the 2010 actual General Fund expenditures.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Covington's Basic Financial Statements. The City's *Basic Financial Statements* are comprised of three components: 1) Government-wide Financial Statements; 2) Fund Financial Statements; and 3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the Basic Financial Statements.

*Government-wide Financial Statements.* The Government-wide Financial Statements are designed to provide readers with a broad overview of the City's finances, in a manner that is similar to a private-sector business. These are financial statements that incorporate all of the City's government and business-type activities. There are two basic government-wide statements: the *Statement of Net Assets* and the *Statement of Activities*. Both government-wide statements are presented using the economic resources measurement focus and the accrual basis of accounting. This measurement focus aims at reporting all inflows, outflows, and balances affecting or reflecting an entity's net assets.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement that may include some items that may result in cash flows in future fiscal periods (e.g., uncollected

property taxes). This compares to governmental funds where revenues and expenses are only reported for items that provide available spendable resources that can be used for current cash inflows and outflows.

Both of these Government-wide Financial Statements are designed to distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities, e.g., utilities). The City currently has no activities that are designated as business-type activities. The governmental activities of the City include the following:

- ✓ General Government includes the activities of the City Council, City Court, City Manager, Finance, City Clerk, City Attorney, Personnel, and Central Services.
- ✓ Community Development includes the functions of planning, permitting, and building inspections.
- ✓ Public Safety includes the functions of law enforcement.
- ✓ Culture and Recreation includes the functions of parks, community events, and various cultural activities.
- ✓ Streets and Highways include street maintenance, surface water management, and construction activities.

The Government-wide Financial Statements include only the activities of the City of Covington. Certain other agencies may include the name "Covington" in their title, but are not included in this report, as the City has no oversight responsibility. These include, but are not limited to, the Covington Chamber of Commerce, Covington Water District, and Covington Sports. The Government-wide Financial Statements can be found on pages 25 to 26 of this report.

*Fund Financial Statements.* A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all the related liabilities and equity balances that are segregated for the purpose of carrying on specific activities or objectives. The City of Covington, like other cities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds are divided into three categories: 1) governmental funds; 2) proprietary funds; and 3) fiduciary funds. The City of Covington does not currently maintain any fiduciary funds.

*Governmental Funds.* Governmental funds are typically used to account for tax supported governmental activities. There are five different types of governmental funds: the general fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The City of Covington does not currently maintain a permanent fund.

Governmental funds account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, which use the economic resources measurement focus, governmental fund financial statements use the current financial resources measurement focus. This measurement focus aims to report the near-term (current) inflows, outflows, and balance of expendable (spendable) financial resources. Such information may be useful in evaluating the City'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 maintains thirteen individual governmental funds. Information is presented in separate columns for eleven of the thirteen funds in the *Governmental Fund Balance Sheet* and in the *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance*. These are considered to be major funds and include: General Fund, Development Services Fund, Parks Fund, Street Fund, Cumulative Reserve Fund, Real Estate Excise Tax 1<sup>st</sup> Qtr % Fund, Real Estate Excise Tax 2<sup>nd</sup> Qtr % Fund, Surface Water Management Fund, Long-Term Debt Fund, Capital Investment Program Fund, and the Local Improvement District Fund. Data from the two remaining funds, the LID Guaranty Fund and the Contingency Fund, are combined into a single aggregated presentation and shown in the *Governmental Fund Balance Sheet* and in the *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance*, in a column labeled *Other Governmental Funds*. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Covington adopts an annual appropriated budget for all of its governmental funds. A budgetary comparison statement is presented for each major fund and is presented in the *Basic Financial Statements* section of this report to demonstrate compliance with their respective budgets. The budget comparisons for the nonmajor funds are presented in the *Combining and Individual Fund Statements and Schedules* section of this report.

*Proprietary Funds.* There are two types of proprietary funds, enterprise funds, and internal service funds. Enterprise funds are used to report an activity for which a fee is charged for goods and services. These account for a business-type activity in a manner similar to a private sector business activity. The City of Covington has no enterprise funds.

Internal service funds are funds that are used to accumulate and allocate costs for goods and services provided to other funds. The City of Covington uses internal service funds to account for unemployment insurance and equipment replacement. Because both of these funds supply services that benefit only the City's governmental activities rather than business activities, they have been consolidated within the governmental activities in the Government-wide Financial Statements. The combined data for the internal service funds is included in the *Basic Financial Statements* section. Individual data for the internal service funds is provided in the form of combining statements and presented in the *Combining and Individual Fund Statements and Schedules* section of this report.

*Notes to the Financial Statements.* The Notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The Notes to the Financial Statements can be found on pages 44 to 64 of this report.

*Other Information.* The combining statements referred to earlier in connection with the nonmajor governmental funds and internal service funds are presented immediately following the Basic Financial Statements and the Notes. Also included is other data regarding budget compliance and additional detailed information.

*Statistical Section.* This section includes un-audited trend information and demographics.

## **Government-wide Financial Analysis**

*Statement of Net Assets.* As stated earlier, net assets may serve over time as a useful indicator of the City's financial position. As of December 31, 2010, the City's net assets are \$45,761,249. Shown below is a breakdown of the City's net assets by category.

## City of Covington's Net Assets

	2010	2009
Current and other assets	\$ 11,064,584	\$ 10,401,440
Capital assets	<u>52,174,580</u>	<u>48,824,684</u>
Total Assets	<u>63,239,164</u>	<u>59,226,124</u>
Long-term liabilities outstanding	16,120,623	16,553,009
Other liabilities	<u>1,357,292</u>	<u>1,581,322</u>
Total Liabilities	<u>17,477,915</u>	<u>18,134,331</u>
Net assets		
Invested in capital assets, net of related debt	36,451,269	32,632,260
Restricted	899,236	819,528
Unrestricted	<u>8,410,744</u>	<u>7,640,005</u>
Total Net Assets	<u>\$ 45,761,249</u>	<u>\$ 41,091,793</u>

- Overall the City's financial position has improved. The City's net assets increased \$4,669,456 during the current fiscal year. A significant portion of this increase is due to work in progress, intangibles, and intergovernmental receivables.

Of the total net assets, \$36,451,269 reflects the City's investment in capital assets net of related debt and accumulated depreciation. The City uses these capital assets to provide services to its citizens. These capital assets are not available for future spending. Although the capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Currently, capital assets reflect 82.5% of the total net assets, an increase of 0.1% over 2009. Capital assets are defined as tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Examples would be land, machinery and equipment, etc.

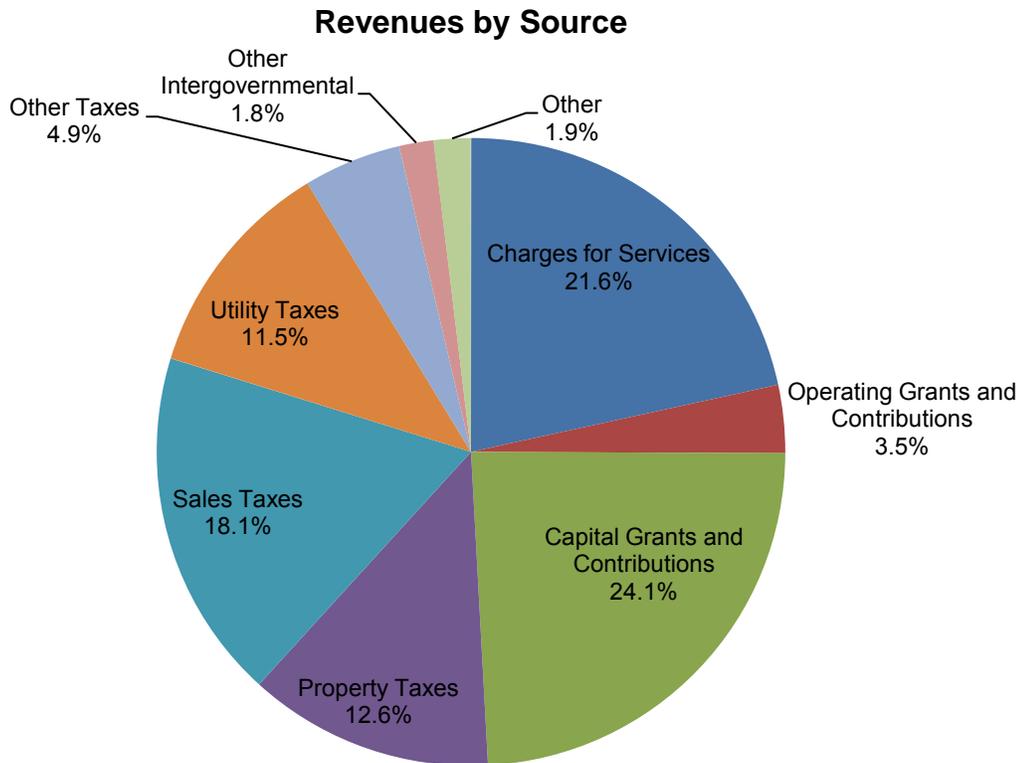
The City is in its eighth year of reporting under the GASB Statement 34 standards. This accounting standard requires that infrastructure-type assets be included as part of the City's investment in capital assets, which was not previously required. Infrastructure-type assets are defined as long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples would include roads, sidewalks, drainage systems, and lighting systems. During the period of implementation, fiscal year 2003, the City was required to include infrastructure assets on a prospective basis — those infrastructure assets purchased or constructed in fiscal year 2003. The City, which was a phase three City during implementation, has the option of voluntarily including infrastructure that was purchased or constructed prior to fiscal year 2003.

A portion of the City's net assets, \$899,236, represents resources that are subject to external restrictions on how they may be used. These assets are primarily related to unspent capital grants and contributions as well as mitigation funds. The remaining balance of unrestricted net assets, \$8,410,744, may be used to meet the City's ongoing obligations to citizens and creditors.

*Statement of Activities.* Shown below is a breakdown of the key elements of the City's changes in net assets.

City of Covington's Changes in Net Assets

	<u>2010</u>	<u>2009</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 3,341,729	\$ 2,659,207
Operating Grants and Contributions	540,429	609,253
Capital Grants and Contributions	3,729,999	3,416,677
General Revenues:		
Property Taxes	1,958,320	2,067,945
Sales Taxes	2,796,876	2,778,789
Utility Tax	1,778,346	1,857,471
Other Taxes	779,378	646,256
Other Intergovernmental	274,758	254,433
Other	<u>295,270</u>	<u>326,518</u>
Total Revenues	<u>15,495,105</u>	<u>14,616,549</u>
Expenses:		
General Government	3,350,824	3,162,014
Community Development	981,746	1,716,586
Public Safety	2,784,450	2,638,416
Culture and Recreation	1,210,301	1,201,680
Streets and Highways	1,890,955	2,547,725
Interest on Long-Term Debt	<u>607,373</u>	<u>615,379</u>
Total Expenses	<u>10,825,649</u>	<u>11,881,800</u>
Increase in Net Assets	4,669,456	2,734,749
Net assets, January 1	<u>41,091,793</u>	<u>38,357,044</u>
Net assets, December 31	<u>\$ 45,761,249</u>	<u>\$ 41,091,793</u>



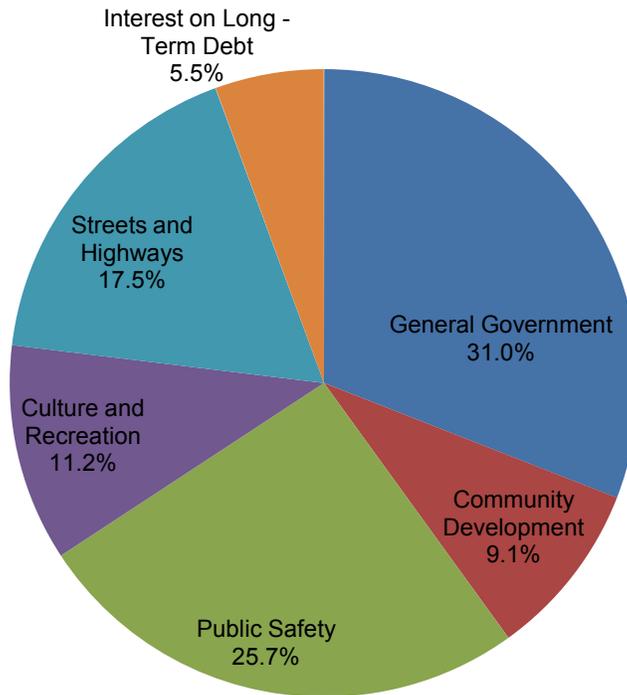
Property taxes decreased by \$109,625 (5.3%) over fiscal year 2009. This decrease is primarily due to a reduction in assessed valuations resulting in property owners challenging their tax bills. The City property tax rate per \$1,000 of assessed value decreased from \$0.98104 in 2009 to \$1.15290 for 2010.

Sales tax revenue for 2010 increased by \$18,087 (0.7%) over fiscal year 2009. In year over year comparisons, retail sales increased by 2.2%, construction dropped 37.5%, food services were slightly up at 1.5%, and all other categories increased 10.8 %.

Utility taxes declined by \$79,125 (4.3%) over fiscal year 2009. This decline is attributable to rate reductions by Puget Sound Energy. Future rate increases should offset this loss in future years.

Real estate excise taxes (REET) increased in 2010 due to a large commercial housing sale. This increase which was \$138,538 (45.6%) over 2009 was an anomaly and should not be considered an indicator of a recovering housing market.

## Expenses by Functions/Programs



General Government saw an increase of \$188,810 (6.0%) in expenses in 2010 over 2009. This was due to increases in court costs, additional central service expenses, public safety costs, and animal control costs.

Community Development saw the sharpest decline of \$734,840 (42.8%). This decrease is due to a reduction in staffing levels which correlates to salaries and benefits and related expenditures. Contractual services were also curtailed. Interfund payments to the General Fund for services provided by the General Fund were suspended for 2010 which accounts for lower transfers out. These policy changes and expenditure reductions were a result of the ongoing weak economy which is bringing in reduced revenue.

Public Safety saw an increase of \$146,034 (5.5%) due to an increase in the police contract.

Culture and Recreation expenses were almost even for 2010 at \$8,621 or 0.7% increase.

The expenses for Streets and Highways showed the second largest decrease — \$656,770 or 25.8% in 2010 over 2009. This decrease is due to a reduction in construction activity.

Interest on long-term debt remained relatively the same as the City continued making payments on the outstanding long-term debt. See page 60 for a more detailed accounting of long-term debt.

## Financial Analysis of the Governmental Funds

The focus of the City's governmental funds is to provide information on current inflows, outflows, and the balance of current spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unreserved balance may serve as a useful measure of a government's net current resources available for spending at the end of the fiscal year.

As of December 31, 2010, the City of Covington governmental funds reported a combined ending fund balance of \$8,390,405 which is an increase of \$809,586 over 2009. A combination of increases in the Cumulative Reserve Fund, the Capital Investment Program Fund, General Fund, and Street Fund are offset by the decrease in the Development Services and Parks Funds creating a net increase in fund balance. Of the total fund balance, \$86,504 is reserved for prepaid items as well as \$46,010 which are being held as the LID Guaranty account, both of which are unavailable for spending in the near future. The balance, \$8,257,891 is unreserved and available for spending at the City's discretion. Current financial resources are not considered available for general spending if they are legally restricted to some use that is narrower than the purpose of the fund itself. Therefore, while portions of the unreserved fund balance relating to the special revenue funds (\$4,875,354), the capital project funds (\$1,090,200), and the debt service funds (\$6,158) are considered unreserved, they may be legally limited in their use, to such uses as streets and surface water management.

The General Fund is the chief operating fund of the City. The *General Fund* fund balance increased by \$51,052 from \$2,300,538 in 2009 to \$2,351,590 for 2010. The General Fund was budgeted to increase fund balance by \$267,538. Forecasted tax revenues came in under budget. However, this was anticipated as the economy continued to struggle. Management monitored revenues and reduced expenditures to match the revenues keeping the fund from having to dip into fund balance.

At the end of the fiscal year 2010, the unreserved fund balance of the General Fund was \$2,286,179. As a measure of the City's liquidity, and also as a measure of its ability to operate should revenues take a downturn or in emergencies, it may be useful to compare unreserved fund balance to the General Fund operating expenditures. Unreserved fund balance represents approximately 35.3% of the 2010 budgeted General Fund operating expenditures.

The Development Services Fund is used to account for the City's building activities, which include activities such as residential and commercial building inspection, plans examination, and processing permits. The *Development Services Fund* fund balance, which was \$274,310 in 2009, increased by \$526,864 to \$801,274 in 2010. The increase is due to increased permit activity in 2010 coupled with reduced expenditures. The number of single family permits issued in 2010 was 44 compared to just 19 in 2009.

The Parks Fund is used to account for Parks programs which include parks maintenance as well as the Covington Aquatic Center. The *Parks Fund* fund balance increased by \$90,182 — from \$143,166 in 2009 to \$233,348 in 2010. The increase is due mainly to a transfer in from the General Fund to support operations. A new fee structure went into effect on August 31, 2010. However, due to the timing this would have little effect for 2010.

The Street Fund is used to account for State collected gasoline tax, which is restricted for street purposes as well as the street maintenance services themselves. The *Street Fund* fund balance increased \$63,734 from \$528,503 in 2009 to \$592,237 in 2010. This was due to revenue from the cable franchise exceeding budget expectations while expenditures (primarily in salaries) came in under budget.

The Cumulative Reserve Fund is used to accumulate monies that in general terms can be used for several different purposes as well as for a very specific municipal purpose. The *Cumulative Reserve Fund* balance increased \$13,421 from \$1,399,618 in 2009 to \$1,413,039 in 2010. The small increase was attributable to interest income. Due to the poor economy, sales tax transfers and transfers of excess fund balance from the Parks Fund to the Cumulative Reserve Fund were suspended indefinitely beginning in 2010.

The Real Estate Excise Tax 1<sup>st</sup> and 2<sup>nd</sup> Qtr % Funds are used to account for monies received by the City from the collection of an excise tax levied on all sales of real estate within the City. These funds saw a combined decrease of \$152,025 in fund balance due to the transfer of funds to pay for debt service on the 2007 transportation bonds. The ongoing decline of the housing market is contributing to reduced revenue from this source.

The Surface Water Management Fund is used to account for the collection of Surface Water Management fees, which is used for the maintenance and operation of storm water treatment facilities and related infrastructure. The *Surface Water Management Fund* fund balance increased \$184,341 from \$1,112,446 in 2009 to \$1,296,787 in 2010. An internal fee audit found additional revenue for the drainage fees and grant revenue also exceeded budget. Even with higher than anticipated expenditures, the revenue offset created the increase in fund balance.

The Long-Term Debt Service Fund, created in 2007, is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. The funds transferred into this account are meant to cover debt service for the year and as such there is no fund balance in this fund.

The Capital Investment Program Fund is used to account for the financing of major capital acquisition construction projects. The *Capital Investment Program Fund* fund balance increased \$23,468 from \$1,048,819 in 2009 to \$1,072,287 in 2010. The small increase is due to project revenues being slightly more than project expenditures and transfers in exceeding transfers out by a small amount.

The Local Improvement District Fund is used to account for resources used to finance specific capital improvements, which are deemed to primarily benefit certain properties located near the project. The *Local Improvement District Fund* fund balance increased \$8,972 from \$8,941 in 2009 to \$17,913 in 2010.

The Other Nonmajor Governmental Funds, which are comprised of the Contingency Fund and the LID 99-01 Guaranty Fund, had a combined ending fund balance of \$471,746, which is a decrease of \$523. The decrease is due to an unrealized loss on investments.

### **General Fund Budgetary Highlights**

The City of Covington budgets on an annual basis on a calendar year.

The 2010 General Fund budget amendment consisted of updating the estimated beginning fund balance to the actual beginning fund balance.

The differences between budgeted General Fund revenues and actuals revenues received were due mainly to reductions in property tax, sales tax, criminal justice tax, and utility tax, which were down 9.1% from the forecast. The continued unstable economy contributed to these declines. Sales tax is allocated to the General Fund at 80% and the Parks and Recreation Fund at 20%.

### **Bond Rating**

In 2007, Moody's Investors Service has assigned an underlying rating of A3 to the City. Moody's has assigned an issuer rating of A2 to the City. The ratings are primarily based on continued growth of the City's moderately-sized tax base, strong financial management with well maintained reserves and manageable debt levels. In April 2010, Moody's changed the rating to Aa3 as a result of the recalibration of U.S. municipal ratings to the global rating scale on U.S. municipal pool financings.

### **Capital Assets**

The City's investment in capital assets for governmental activities as of December 31, 2010 is \$52,174,580 (net of depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, intangibles, infrastructure, and work in progress. There is an increase in

capital assets from fiscal year 2009 due to ongoing capital improvement projects. The infrastructure capital assets only relates to those assets purchased/constructed in 2003 through 2010. Listed below is a breakdown of the City's capital assets. Additional information regarding Capital Assets can be found in the Notes to the Financial Statements on page 56.

City of Covington's Capital Assets  
(net of depreciation)

	2010	2009
Land	18,562,206	18,561,280
Buildings	673,825	710,292
Improvements other than Buildings	354,857	402,112
Machinery and Equipment	241,767	270,419
Infrastructure	19,627,601	19,741,700
Intangibles	947,893	-
Work in Progress	11,766,431	9,138,881
Total	\$52,174,580	\$48,824,684

**Debt Administration**

A Special Assessment bond was issued to finance construction of Local Improvement District 99-01 in the amount of \$460,100 and will be repaid through assessments collected from property owners benefiting from related improvements. The bond was issued on July 1, 2005 with annual interest rate of 4.8% and shall mature on July 1, 2021.

A Public Works Trust Fund loan has been received to finance construction of improvements on 164<sup>th</sup> Avenue SE. The loan was received on July 1, 2005 in the amount of \$3,785,500 with an annual interest rate of 0.5% and shall mature on July 1, 2024.

On May 22, 2007, the City issued \$10,000,000 of par value Limited Tax General Obligation Bonds, Series 2007A (Tax-exempt), and \$2,505,000 of par value Limited Tax General Obligation Bonds, Series 2007T (Taxable), to provide funds with which to pay the cost of acquiring property for right-of-way and construction of certain street and intersection improvements within the City. The actual combined true interest cost is 4.29%. The interest rate on the Series 2007A bonds is 4.15% with a maturity date of November 1, 2027. The interest rate on the Series 2007T bonds is 5.43% with a maturity date of November 1, 2015.

On June 10, 2008, the City issued \$308,068 in Limited Tax General Obligation Bonds. These bonds provided funding for improvements at the Aquatics Center. The bond will bear interest at 4.00% per annum with a maturity date of June 1, 2023.

Additional information on long term-debt can be found in the Notes to the Financial Statements on page 60 to 63.

**Next Year's Budget**

There are two ongoing issues plus two new ones that set the pace for the 2011 budget:

- Real estate excise tax revenues continue to remain at low levels thus impacting service delivery as General Fund revenues are diverted to the debt service reserve to supplement the debt service payment.

- Sales and utility tax revenues continue to be flat.
- The police services contract with King County increased by 10.7% for 2011 due to increased dispatched calls for services and increased labor costs.

For 2011, about \$398,000 of expenditure cuts, revenue additions, or a combination of both is needed to balance the General Fund.

The following budget strategies are retained from the 2010 budget:

- Redirect the General Fund's transfer of \$150,000 per year from the Capital Investment Program (CIP) Fund's street overlay program to the Street Fund operations.
- Discontinue the General Fund's transfer of sales tax revenue to the Cumulative Reserve Fund.
- Discontinue the Parks Fund's annual transfer of fund balance to the Cumulative Reserve Fund.
- Have the General Fund absorb additional central services costs based on the full-time equivalent (FTE) reduction in other funds.
- Use a 0% cost of living adjustment. The June 2009 to June 2010 CPI came in negative. The negative CPI will be moved forward against future positive CPI increases.
- Modify the merit award program by replacing monetary compensation with additional floating holidays.
- Maintain the following position at half-time: code enforcement officer.
- Forego the biennial budget process until the economy stabilizes.

### **2011 Budget Strategies**

- Reduce expenses by \$218,380 across all operational funds.
- Change the ratio of sales tax distribution to the General and Parks Funds from 80%/20% to 84%/16% (the ratio was already slated for change in 2012 to 82%/18%).
- Increase the interfund service payment from the Surface Water Management Fund to the General Fund by \$111,000.
- Reduce the General Fund subsidy to the Street Fund by \$25,000 and eliminate the interfund service payment from the Street Fund to the General Fund.
- Restore partially the Development Services Fund's interfund service payment.
- Eliminate 2 ¼ positions: administrative services manager (1.0 FTE); engineering technician III (1.0 FTE); and finance specialist (0.25 FTE).
- Restore the development review engineer to full-time.
- Reassign the engineering technician III position to the vacant maintenance supervisor position, reassign the senior maintenance worker to be paid 100% out of the Surface Water Management Fund, and eliminate the engineering technician III position.
- Move to a lower cost medical plan coupled with VEBA contributions. The total savings from changing plans is \$46,000. The additional cost from the VEBA contributions is \$17,000 for a net savings of \$29,000 across all funds.
- Increase aquatics revenue by \$40,000 per the recent fee increases.
- Pursue opportunities to lease out space in city hall.
- Levy the city's banked property tax capacity to begin to address the larger shortfall in 2012 and beyond.

### **Economic Factors**

The recession lasted about 19 months and the recovery has been underway for about a year. On the national front, housing is still weak after the tax credits expired, consumer confidence is sluggish, unemployment is pushing double digits, and the credit environment is still challenging for small businesses. Gross Domestic Product (GDP) growth has been adjusted downward for the second quarter after seeing growth in the first quarter of 2010 and the last quarter of 2009.

The Washington recovery lost momentum during the summer after showing signs of growth during the spring. Mirroring the national economy, housing and employment are both slumping. The 2011 outlook for employment growth has been cut in half from 2.7% to 1.3%. The expectation is that overall employment will reach its pre-recession peak in the second quarter of 2013.

The Seattle Consumer Price Index (CPI) showed deflation through the first two quarters of 2010. The weak economy and housing costs which fell as a result of the depressed housing market are the factors causing the deflation. However, it appears that inflation should be close to zero in 2010 and picking up in 2011 through 2013.

For Covington, the housing market remains down which is reflected in real estate excise tax receipts, and retail sales continue to be flat. For this economy, however, that is a good thing. Many surrounding cities are experiencing double digit declines in sales tax revenue over previous years. Utility taxes are down for 2010. This could be due to two things: lack of forecasting history creating imprecise budget targets and weather – a mild winter and summer creating less heating and cooling demands.

### **Summary**

The budgeting process for Covington has changed. We now do three to four forecast updates per year versus one, directors are preparing next year's budget as soon as the current one is passed, and staff is trying to do more with less, but more often than not it is less with less. There is, however, a silver lining. Every department thinks more in terms of how to deliver services in a more efficient, cost effective manner while still providing quality customer service. Times of adversity tend to bring out more creativity.

### **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 Finance Department, City of Covington, 16720 SE 271<sup>st</sup> Street, Suite 100, Covington, WA 98042.

# **BASIC FINANCIAL STATEMENTS**

City of Covington  
Statement of Net Assets  
December 31, 2010

**Assets**

Cash and Cash Equivalents	\$ 6,200,184
Deposit - Internal Fiscal Agency	46,010
Investments	1,501,618
Receivables (net of allowances for uncollectibles, where applicable):	
Accounts	298,223
Special Assessments	249,196
Interest	14,533
Penalties	-
Property Taxes	55,191
Intergovernmental	2,533,763
Prepaid Items	86,504
Bond Issuance Costs (Net of Amortization)	79,362
Capital Assets (Net of Depreciation):	
Land	18,562,206
Buildings	673,825
Improvements Other than Buildings	354,857
Machinery and Equipment	241,767
Infrastructure	19,627,601
Intangible Assets	947,893
Work In Progress	11,766,431
	<u>11,766,431</u>
Total Assets	<u>\$ 63,239,164</u>

**Liabilities**

Accounts Payable	\$ 345,180
Accrued Interest Payable	236,974
Accrued Payroll/Benefits	123,658
Due to Other Governmental Entities	239,201
Performance Bonds	5,382
Unearned Revenue	406,897
Long-Term Liabilities	
Due Within One Year	
Compensated Absences	278,963
General Obligation Bonds	506,920
Other Long-Term Debt	214,896
Due in More Than One Year	
Compensated Absences	118,349
Special Assessment Debt with Government Commitment	114,236
General Obligation Bonds	12,093,615
Other Long-Term Debt	2,793,644
	<u>2,793,644</u>
Total Liabilities	<u>17,477,915</u>

**Net Assets**

Invested in Capital Assets	
Net of Related Debt	36,451,269
Restricted for:	
Debt Service	46,010
Capital Improvement Projects	853,226
Unrestricted	8,410,744
	<u>8,410,744</u>
Total Net Assets	<u>\$ 45,761,249</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Statement of Activities  
For the Fiscal Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) Governmental Activities	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Government Activities:					
General Government	\$ 3,350,824	\$ 190,859	\$ 92,072	\$ -	\$ (3,067,893)
Community Development	981,746	1,084,052	-	-	102,306
Public Safety	2,784,450	6,759	-	-	(2,777,691)
Culture and Recreation	1,210,301	501,461	5,987	-	(702,853)
Streets and Highways	1,890,955	1,558,598	442,370	3,729,999	3,840,012
Interest on Long Term Debt	607,373	-	-	-	(607,373)
Total Governmental Activities	<u>10,825,649</u>	<u>3,341,729</u>	<u>540,429</u>	<u>3,729,999</u>	<u>(3,213,492)</u>
General Revenues					
Taxes:					
Property Tax					1,958,320
Sales Tax					2,796,876
Utility Tax					1,778,346
Local Criminal Justice					337,172
Real Estate Excise Tax					442,206
Franchise Fee (Taxes)					197,813
MVET-Criminal Justice					47,686
Liquor Board Profits					140,224
Liquor Excise Tax					86,848
Interest Income					31,041
Miscellaneous					66,416
Total General Revenues					<u>7,882,948</u>
Change in Net Assets					4,669,456
Net Assets, January 1					<u>41,091,793</u>
Net Assets, December 31					<u>\$ 45,761,249</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Balance Sheet  
Governmental Funds  
December 31, 2010

	General	Special Revenue Funds						Surface Water Management
		Development Services	Parks	Street	Cumulative Reserve Fund	Real Estate Excise Tax 1st Qtr%	Real Estate Excise Tax 2nd Qtr%	
<b>Assets and Other Debits</b>								
Cash and Cash Equivalents	\$ 1,905,072	\$ 825,165	\$ 172,513	\$ 492,368	\$ 40,956	\$ -	\$ -	\$ 1,285,820
Deposit - Internal Fiscal Agency	-	-	-	-	-	-	-	-
Investments	-	-	-	-	1,369,798	-	-	-
Receivables (net of allowances for uncollectibles, where applicable):								
Accounts	199,285	8,625	5,174	62,507	-	-	-	1,596
Special Assessments	-	-	-	-	-	-	-	-
Interest	226	-	-	-	2,345	-	-	-
Penalties	-	-	-	-	-	-	-	-
Property Taxes	55,191	-	-	-	-	-	-	-
Intergovernmental	541,668	2,810	117,276	59,872	-	70,092	70,092	982,985
Due from Other Funds	-	-	-	-	-	-	-	-
Prepaid Items	65,411	4,460	4,703	3,978	-	-	-	7,952
<b>Total Assets</b>	<b>\$ 2,766,853</b>	<b>\$ 841,060</b>	<b>\$ 299,666</b>	<b>\$ 618,725</b>	<b>\$ 1,413,039</b>	<b>\$ 70,092</b>	<b>\$ 70,092</b>	<b>\$ 2,278,353</b>
<b>Liabilities</b>								
Accounts Payable	\$ 111,135	\$ 1,411	\$ 42,546	\$ 12,708	\$ 60	\$ -	\$ -	\$ 18,300
Accrued Payroll/Benefits	59,981	16,141	18,036	10,087	-	-	-	19,413
Compensated Absences	-	-	-	-	-	-	-	-
Due to Other Funds	-	-	-	-	-	-	-	-
Due to Other Governmental Entities	188,956	16,852	5,736	3,693	-	-	-	6,261
Performance Bonds	-	5,382	-	-	-	-	-	-
Deferred Revenue	55,191	-	-	-	-	-	-	937,592
<b>Total Liabilities</b>	<b>415,263</b>	<b>39,786</b>	<b>66,318</b>	<b>26,488</b>	<b>60</b>	<b>-</b>	<b>-</b>	<b>981,566</b>
<b>Fund Balance</b>								
Fund Balance:								
Reserved for Prepaid Items	65,411	4,460	4,703	3,978	-	-	-	7,952
Reserved for Deposit - Internal Fiscal Agency	-	-	-	-	-	-	-	-
Unreserved, Reported in:								
General Fund	2,286,179	-	-	-	-	-	-	-
Special Revenue Funds	-	796,814	228,645	588,259	1,413,039	70,092	70,092	1,288,835
Debt Service Funds	-	-	-	-	-	-	-	-
Capital Project Funds	-	-	-	-	-	-	-	-
<b>Total Fund Balances</b>	<b>2,351,590</b>	<b>801,274</b>	<b>233,348</b>	<b>592,237</b>	<b>1,413,039</b>	<b>70,092</b>	<b>70,092</b>	<b>1,296,787</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,766,853</b>	<b>\$ 841,060</b>	<b>\$ 299,666</b>	<b>\$ 618,725</b>	<b>\$ 1,413,039</b>	<b>\$ 70,092</b>	<b>\$ 70,092</b>	<b>\$ 2,278,353</b>

The Notes to the Financial Statements are an integral part of this statement.

Debt Service Fund	Capital Project Funds		Other Governmental Funds	Total Governmental Funds
	Long-Term Debt	Capital Investment Program		
\$ -	\$ 672,939	\$ 17,913	\$ 293,922	\$ 5,706,668
-	-	-	46,010	46,010
-	-	-	131,820	1,501,618
-	21,036	-	-	298,223
-	-	249,196	-	249,196
-	-	11,962	-	14,533
-	-	-	-	-
-	-	-	-	55,191
-	685,555	-	-	2,530,350
-	-	-	-	-
-	-	-	-	86,504
<u>\$ -</u>	<u>\$ 1,379,530</u>	<u>\$ 279,071</u>	<u>\$ 471,752</u>	<u>\$ 10,488,293</u>
\$ -	\$ 155,473	\$ -	\$ 6	\$ 341,639
-	-	-	-	123,658
-	-	-	-	-
-	-	-	-	-
-	6,031	-	-	227,529
-	-	-	-	5,382
-	145,739	261,158	-	1,399,680
-	307,243	261,158	6	2,097,888
-	-	-	-	86,504
-	-	-	46,010	46,010
-	-	-	-	2,286,179
-	-	-	419,578	4,875,354
-	-	-	6,158	6,158
-	1,072,287	17,913	-	1,090,200
-	1,072,287	17,913	471,746	8,390,405
<u>\$ -</u>	<u>\$ 1,379,530</u>	<u>\$ 279,071</u>	<u>\$ 471,752</u>	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital Assets used in governmental activities are not financial resources, and therefore are not reported in the governmental funds. Governmental Assets (\$49,856,533) are shown net of Accumulated Depreciation (\$1,207,701). Capital Assets are included in the Statement of Net Assets. 51,999,175

Other long-term assets such as property tax receivable (\$55,191) and surface water management fees receivable (\$937,592) are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds. These amounts are included in the Statement of Net Assets. 992,783

Long-term liabilities such as compensated absences (\$397,312), General Obligation Bond Payable (\$12,521,173), LID Bond Payable (\$114,236), Public Works Trust Fund Loan (\$3,008,540), and Accrued Interest Payable (\$236,974) are not due and payable in the current period and, therefore, are not reported in the governmental funds. (16,278,235)

Internal funds are used to charge the costs of unemployment insurance and vehicle rentals to the various governmental fund users of these services. The assets and liabilities of the internal service funds, not included in the governmental funds, are included in the governmental activities in the Statement of Net Assets. 657,121

Net assets of governmental activities \$45,761,249

City of Covington  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Governmental Fund Types  
For the Fiscal Year Ended December 31, 2010

	Special Revenue Funds							
	General	Development Services	Parks	Street	Cumulative Reserve Fund	Real Estate Excise Tax 1st Qtr%	Real Estate Excise Tax 2nd Qtr%	Surface Water Management
<b>Revenues:</b>								
Taxes	\$ 6,329,869	\$ -	\$ 559,375	\$ -	\$ -	\$ 221,103	\$ 221,103	\$ -
Licenses and Permits	-	448,684	-	197,813	-	-	-	-
Intergovernmental	366,830	3,354	5,987	378,263	-	-	-	64,107
Charges for Goods and Services	11,816	688,318	372,473	-	-	-	-	1,443,633
Fines and Forfeitures	127,662	552	-	-	-	-	-	-
Special Assessments	-	-	-	-	-	-	-	-
Interest Income	8,250	1,500	381	1,336	13,421	197	82	3,194
Penalties	-	-	-	-	-	-	-	-
Interfund Services Payment	588,194	-	-	-	-	-	-	-
Miscellaneous	67,111	649	128,988	12,042	-	-	-	5
<b>Total Revenues</b>	<b>7,499,732</b>	<b>1,143,057</b>	<b>1,067,204</b>	<b>589,454</b>	<b>13,421</b>	<b>221,300</b>	<b>221,185</b>	<b>1,510,939</b>
<b>Expenditures:</b>								
<b>Current:</b>								
General Government	3,259,194	-	-	-	-	-	-	-
Community Development	426,030	616,093	-	-	-	-	-	-
Public Safety	2,784,450	-	-	-	-	-	-	-
Culture and Recreation	-	-	1,202,554	-	-	-	-	-
Streets and Highways	-	-	-	885,798	-	-	-	1,248,514
<b>Capital Outlay:</b>								
General Government	5,973	-	-	-	-	-	-	-
Community Development	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-	-	-
Streets and Highways	-	-	-	5,661	-	-	-	5,661
<b>Debt Service:</b>								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	32,837
Bond Issuance Costs	-	-	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>6,475,647</b>	<b>616,093</b>	<b>1,202,554</b>	<b>891,459</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,287,012</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>1,024,085</b>	<b>526,964</b>	<b>(135,350)</b>	<b>(302,005)</b>	<b>13,421</b>	<b>221,300</b>	<b>221,185</b>	<b>223,927</b>
<b>Other Financing Sources (Uses):</b>								
Transfers In	-	-	252,459	365,739	-	-	-	13,914
Transfers Out	(973,047)	-	(27,483)	-	-	(364,625)	(229,885)	(53,500)
General Obligation Bond Proceeds	-	-	-	-	-	-	-	-
Premium on General Obligation Bonds	-	-	-	-	-	-	-	-
Special Assessment Bond Proceeds	-	-	-	-	-	-	-	-
Intergovernmental Loan Proceeds	-	-	-	-	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	-	-	-	-	-	-
Compensation from Loss of Assets	14	-	556	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(973,033)</b>	<b>-</b>	<b>225,532</b>	<b>365,739</b>	<b>-</b>	<b>(364,625)</b>	<b>(229,885)</b>	<b>(39,586)</b>
<b>Net Change in Fund Balances</b>	<b>51,052</b>	<b>526,964</b>	<b>90,182</b>	<b>63,734</b>	<b>13,421</b>	<b>(143,325)</b>	<b>(8,700)</b>	<b>184,341</b>
Fund Balances, January 1	2,300,538	274,310	143,166	528,503	1,399,618	213,417	78,792	1,112,446
Fund Balances, December 31	<u>\$ 2,351,590</u>	<u>\$ 801,274</u>	<u>\$ 233,348</u>	<u>\$ 592,237</u>	<u>\$ 1,413,039</u>	<u>\$ 70,092</u>	<u>\$ 70,092</u>	<u>\$ 1,296,787</u>

The Notes to the Financial Statements are an integral part of this statement.

Debt Service Fund	Capital Project Funds		Other Governmental Funds	Totals Governmental Funds
	Long - Term Debt	Capital Investment Program		
\$ -	\$ -	\$ -	\$ -	\$ 7,331,450
-	-	-	-	646,497
-	2,246,734	-	-	3,065,275
-	480,616	-	-	2,996,856
-	-	-	-	128,214
-	-	52,122	-	52,122
-	2,490	47	(523)	30,375
-	-	-	-	-
-	-	-	-	588,194
-	-	-	-	208,795
-	<u>2,729,840</u>	<u>52,169</u>	<u>(523)</u>	<u>15,047,778</u>
-	-	-	-	3,259,194
-	-	-	-	1,042,123
-	-	-	-	2,784,450
-	-	-	-	1,202,554
-	-	-	-	2,134,312
-	-	-	-	5,973
-	-	-	-	-
-	-	-	-	-
-	126,374	-	-	126,374
-	2,591,976	697	-	2,603,995
431,158	-	35,321	-	466,479
573,292	-	7,179	-	613,308
-	-	-	-	-
<u>1,004,450</u>	<u>2,718,350</u>	<u>43,197</u>	<u>-</u>	<u>14,238,762</u>
<u>(1,004,450)</u>	<u>11,490</u>	<u>8,972</u>	<u>(523)</u>	<u>809,016</u>
1,004,450	53,500	-	-	1,690,062
-	(41,522)	-	-	(1,690,062)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	570
<u>1,004,450</u>	<u>11,978</u>	<u>-</u>	<u>-</u>	<u>570</u>
-	23,468	8,972	(523)	809,586
-	1,048,819	8,941	472,269	7,580,819
<u>\$ -</u>	<u>\$ 1,072,287</u>	<u>\$ 17,913</u>	<u>\$ 471,746</u>	<u>\$ 8,390,405</u>

City of Covington  
 Reconciliation of the Statement of Revenues, Expenditures, and  
 Changes in Fund Balances, Governmental Fund Types  
 to the Statement of Activities  
 For the Year Ended December 31, 2010

Amounts reported for Governmental Activities in the Statement of Activities (see page 26) are different because:

Net Change in Fund Balances - total Governmental funds (see pages 29, 30)	\$ 809,586
Governmental funds revenues are only reported when they provide current financial resources. However, in the Statement of Activities, revenues are recognized when earned.	84,424
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net assets.	927,039
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which outlays for capital assets exceeded depreciation in the current period. This is comprised of capital outlays of \$2,715,420 less current year depreciation of (\$292,116).	2,423,304
Governmental funds report bond issuance costs as expenditures. However, these amounts are reported on the Statement of Net Assets as deferred charges and amortized over the life of the debt. Amortization of bond issuance costs (\$6,731).	(6,731)
Governmental funds do not recognize liabilities for certain expenditures that are not expected to be liquidated with expendable available financial resources (due for payment in the next period). However, in the Statement of Activities, expenditures are recognized as soon as a liability is incurred. This is the amount to recognize the liability for compensated absences \$36,726.	(36,726)
Repayment of long-term debt is an expenditure in the governmental funds, yet, the repayment reduces long-term liabilities in the Statement of Net Assets.	466,479
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. Interest expense of \$5,935. Amortization of bond premium \$2,633.	8,568
Internal funds are used to charge the costs of unemployment insurance and vehicle rentals to the various governmental fund users of these services. However, in the Statement of Activities, any net profit or loss of the internal service funds is allocated to the functions that benefited from the services provided by the internal service fund. These are the amounts allocated by the Unemployment Insurance Fund and the Equipment Replacement Fund, respectively.	(46,459) 39,972
Change in net assets of governmental activities (see page 26)	\$ 4,669,456

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

City of Covington  
General Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>Revenues:</b>				
Taxes	\$ 6,960,060	\$ 6,960,060	\$ 6,329,869	\$ (630,191)
Intergovernmental	352,124	376,124	366,830	(9,294)
Charges for Goods and Services	594,756	594,756	600,010	5,254
Fines and Forfeitures	120,925	120,925	127,662	6,737
Interest Income	36,300	36,300	8,250	(28,050)
Miscellaneous	52,500	52,500	67,111	14,611
<b>Total Revenues</b>	<b>8,116,665</b>	<b>8,140,665</b>	<b>7,499,732</b>	<b>(640,933)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General Government:</b>				
City Council	89,714	89,714	87,161	(2,553)
Council Contingency	50,000	50,000	-	(50,000)
City Court	414,800	414,800	543,379	128,579
City Manager	813,755	813,755	824,880	11,125
Finance	521,748	521,748	483,887	(37,861)
City Attorney	101,000	101,000	67,172	(33,828)
Personnel	334,356	358,356	334,298	(24,058)
Central Services	901,020	901,020	918,417	17,397
<b>Total General Government</b>	<b>3,226,393</b>	<b>3,250,393</b>	<b>3,259,194</b>	<b>8,801</b>
<b>Community Development:</b>				
Total Community Development	476,117	476,117	426,030	(50,087)
<b>Public Safety:</b>				
Total Public Safety	2,844,412	2,844,412	2,784,450	(59,962)
<b>Capital Outlay:</b>				
General Government	6,000	6,000	5,973	(27)
Public Safety	-	-	-	-
Community Development	-	-	-	-
<b>Total Expenditures</b>	<b>6,552,922</b>	<b>6,576,922</b>	<b>6,475,647</b>	<b>(101,275)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>1,563,743</b>	<b>1,563,743</b>	<b>1,024,085</b>	<b>(539,658)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(1,296,205)	(1,296,205)	(973,047)	323,158
Compensation Loss of Asset	-	-	14	14
<b>Total Other Financing Sources (Uses)</b>	<b>(1,296,205)</b>	<b>(1,296,205)</b>	<b>(973,033)</b>	<b>323,172</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>267,538</b>	<b>267,538</b>	<b>51,052</b>	<b>(216,486)</b>
<b>Fund Balances, January 1</b>	<b>2,466,878</b>	<b>2,300,538</b>	<b>2,300,538</b>	<b>-</b>
<b>Fund Balances, December 31</b>	<b>\$ 2,734,416</b>	<b>\$ 2,568,076</b>	<b>\$ 2,351,590</b>	<b>\$ (216,486)</b>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Development Services Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>Revenues:</b>				
Licenses and Permits	\$ 255,000	\$ 255,000	\$ 448,684	\$ 193,684
Intergovernmental	1,700	1,700	3,354	1,654
Charges for Goods and Services	243,100	243,100	688,318	445,218
Fines and Forfeitures	-	-	552	552
Interest Income	200	200	1,500	1,300
Miscellaneous	-	-	649	649
<b>Total Revenues</b>	<b>500,000</b>	<b>500,000</b>	<b>1,143,057</b>	<b>643,057</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Community Development: Development Services	572,018	572,018	616,093	44,075
<b>Capital Outlay:</b>				
General Government	-	-	-	-
Community Development	-	-	-	-
<b>Total Expenditures</b>	<b>572,018</b>	<b>572,018</b>	<b>616,093</b>	<b>44,075</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(72,018)</b>	<b>(72,018)</b>	<b>526,964</b>	<b>598,982</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>(72,018)</b>	<b>(72,018)</b>	<b>526,964</b>	<b>598,982</b>
<b>Fund Balances, January 1</b>	<b>139,113</b>	<b>274,310</b>	<b>274,310</b>	<b>-</b>
<b>Fund Balances, December 31</b>	<b>\$ 67,095</b>	<b>\$ 202,292</b>	<b>\$ 801,274</b>	<b>\$ 598,982</b>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Parks Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>Revenues:</b>				
Taxes	\$ 605,000	\$ 605,000	\$ 559,375	\$ (45,625)
Intergovernmental	-	5,000	5,987	987
Charges for Goods and Services	348,387	348,387	372,473	24,086
Fines and Forfeitures	-	-	-	-
Interest Income	2,995	2,995	381	(2,614)
Miscellaneous	111,239	111,239	128,988	17,749
<b>Total Revenues</b>	<b>1,067,621</b>	<b>1,072,621</b>	<b>1,067,204</b>	<b>(5,417)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Culture and Recreation:</b>				
Parks Maintenance	187,491	187,591	186,819	(772)
Aquatics	712,602	754,131	727,357	(26,774)
Recreation and Special Events	89,253	94,153	79,384	(14,769)
Parks Administration	223,786	223,786	208,994	(14,792)
<b>Total Culture and Recreation</b>	<b>1,213,132</b>	<b>1,259,661</b>	<b>1,202,554</b>	<b>(57,107)</b>
<b>Capital Outlay:</b>				
Culture and Recreation	-	-	-	-
Streets and Highways	-	-	-	-
<b>Total Expenditures</b>	<b>1,213,132</b>	<b>1,259,661</b>	<b>1,202,554</b>	<b>(57,107)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(145,511)</b>	<b>(187,040)</b>	<b>(135,350)</b>	<b>51,690</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	210,938	252,467	252,459	(8)
Transfers Out	(27,484)	(27,484)	(27,483)	1
Proceeds from Sale of Assets	-	-	-	-
Compensation from Loss of Assets	-	-	556	556
<b>Total Other Financing Sources (Uses)</b>	<b>183,454</b>	<b>224,983</b>	<b>225,532</b>	<b>549</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>37,943</b>	<b>37,943</b>	<b>90,182</b>	<b>52,239</b>
<b>Fund Balances, January 1</b>	<b>122,089</b>	<b>143,166</b>	<b>143,166</b>	<b>-</b>
<b>Fund Balances, December 31</b>	<b>\$ 160,032</b>	<b>\$ 181,109</b>	<b>\$ 233,348</b>	<b>\$ 52,239</b>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Street Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>Revenues:</b>				
Licenses and Permits	\$ 184,000	\$ 184,000	\$ 197,813	\$ 13,813
Intergovernmental	380,000	380,000	378,263	(1,737)
Charges for Goods and Services	-	-	-	-
Interest Income	3,500	3,500	1,336	(2,164)
Miscellaneous	-	-	12,042	12,042
<b>Total Revenues</b>	<b>567,500</b>	<b>567,500</b>	<b>589,454</b>	<b>21,954</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Streets and Highways	946,576	946,576	885,798	(60,778)
<b>Capital Outlay:</b>				
Streets and Highways	-	-	5,661	5,661
<b>Total Expenditures</b>	<b>946,576</b>	<b>946,576</b>	<b>891,459</b>	<b>(55,117)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(379,076)</b>	<b>(379,076)</b>	<b>(302,005)</b>	<b>77,071</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	380,739	380,739	365,739	(15,000)
Transfers Out	-	-	-	-
Compensation for Loss of Assets	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>380,739</b>	<b>380,739</b>	<b>365,739</b>	<b>(15,000)</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>1,663</b>	<b>1,663</b>	<b>63,734</b>	<b>62,071</b>
<b>Fund Balances, January 1</b>	<b>437,035</b>	<b>528,503</b>	<b>528,503</b>	<b>-</b>
<b>Fund Balances, December 31</b>	<b>\$ 438,698</b>	<b>\$ 530,166</b>	<b>\$ 592,237</b>	<b>\$ 62,071</b>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Cumulative Reserve Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Interest Income	<u>14,400</u>	<u>14,400</u>	<u>13,421</u>	<u>(979)</u>
Total Revenues	<u>14,400</u>	<u>14,400</u>	<u>13,421</u>	<u>(979)</u>
Expenditures:				
Current:				
General Government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>14,400</u>	<u>14,400</u>	<u>13,421</u>	<u>(979)</u>
Other Financing Sources (Uses):				
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	14,400	14,400	13,421	(979)
Fund Balances, January 1	<u>1,393,394</u>	<u>1,399,618</u>	<u>1,399,618</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,407,794</u>	<u>\$ 1,414,018</u>	<u>\$ 1,413,039</u>	<u>\$ (979)</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Real Estate Excise Tax 1st Qtr % Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues:				
Taxes	\$ 175,000	\$ 175,000	\$ 221,103	\$ 46,103
Interest Income	2,000	2,000	197	(1,803)
<b>Total Revenues</b>	<u>177,000</u>	<u>177,000</u>	<u>221,300</u>	<u>44,300</u>
Expenditures:				
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>177,000</u>	<u>177,000</u>	<u>221,300</u>	<u>44,300</u>
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	<u>(285,702)</u>	<u>(285,702)</u>	<u>(364,625)</u>	<u>(78,923)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(285,702)</u>	<u>(285,702)</u>	<u>(364,625)</u>	<u>(78,923)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(108,702)	(108,702)	(143,325)	(34,623)
Fund Balances, January 1	<u>108,702</u>	<u>213,417</u>	<u>213,417</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ 104,715</u>	<u>\$ 70,092</u>	<u>\$ (34,623)</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Real Estate Excise Tax 2nd Qtr % Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues:				
Taxes	\$ 175,000	\$ 175,000	\$ 221,103	\$ 46,103
Interest Income	2,000	2,000	82	(1,918)
Total Revenues	<u>177,000</u>	<u>177,000</u>	<u>221,185</u>	<u>44,185</u>
Expenditures:				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>177,000</u>	<u>177,000</u>	<u>221,185</u>	<u>44,185</u>
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	<u>(356,560)</u>	<u>(356,560)</u>	<u>(229,885)</u>	<u>126,675</u>
Total Other Financing Sources (Uses)	<u>(356,560)</u>	<u>(356,560)</u>	<u>(229,885)</u>	<u>126,675</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(179,560)	(179,560)	(8,700)	170,860
Fund Balances, January 1	<u>179,560</u>	<u>78,792</u>	<u>78,792</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ (100,768)</u>	<u>\$ 70,092</u>	<u>\$ 170,860</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Surface Water Management Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues:				
Intergovernmental	\$ 10,267	\$ 88,482	\$ 64,107	(24,375)
Charges for Goods and Services	1,258,896	1,258,896	1,443,633	184,737
Interest Income	12,000	12,000	3,194	(8,806)
Miscellaneous	-	-	5	5
<b>Total Revenues</b>	<b>1,281,163</b>	<b>1,359,378</b>	<b>1,510,939</b>	<b>151,556</b>
Expenditures:				
Current:				
Public Works	1,323,540	1,509,421	1,248,514	(260,907)
Capital Outlay:				
Streets and Highways	-	-	5,661	5,661
Debt Service:				
Interest	32,000	32,000	32,837	837
<b>Total Expenditures</b>	<b>1,355,540</b>	<b>1,541,421</b>	<b>1,287,012</b>	<b>(254,409)</b>
Excess (Deficiency) of Revenues Over Expenditures	(74,377)	(182,043)	223,927	405,970
Other Financing Sources (Uses):				
Transfers In	48,914	48,914	13,914	(35,000)
Transfers Out	(53,500)	(53,500)	(53,500)	-
Compensation for Loss of Assets	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(4,586)</b>	<b>(4,586)</b>	<b>(39,586)</b>	<b>(35,000)</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(78,963)	(186,629)	184,341	370,970
Fund Balances, January 1	915,834	1,112,446	1,112,446	-
Fund Balances, December 31	<b>\$ 836,871</b>	<b>\$ 925,817</b>	<b>\$ 1,296,787</b>	<b>\$ 370,970</b>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Statement of Net Assets  
All Proprietary Fund Types  
December 31, 2010

	<u>Governmental Activities- Internal Service Funds</u>
<b><u>Assets and other Debits</u></b>	
Current Assets:	
Cash and Cash Equivalents	\$ 493,516
Investments	-
Interest Receivable	-
Due from Other Governments	<u>3,413</u>
Total Current Assets	<u>496,929</u>
Capital Assets:	
Machinery and Equipment	329,822
Accumulated Depreciation	<u>(154,417)</u>
Total Capital Assets (net of accumulated depreciation)	<u>175,405</u>
Total Assets	<u>672,334</u>
 <b><u>Liabilities</u></b>	
Current Liabilities:	
Accounts Payable	3,541
Due to Other Governmental Entities	11,672
Deferred Revenue	<u>-</u>
Total Liabilities	<u>15,213</u>
 <b><u>Net Assets</u></b>	
Invested in Capital Assets	175,405
Unrestricted	<u>481,716</u>
Total Net Assets	<u>\$ 657,121</u>

The Notes to the Financial Statements are an integral part of this statement.

City Of Covington  
Statement of Revenues, Expenses, and  
Changes in Fund Net Assets  
All Proprietary Fund Types  
For the Fiscal Year Ended December 31, 2010

	<u>Governmental Activities- Internal Service Funds</u>
Operating Revenues:	
Unemployment Charges	\$ 38,295
Fuel and Maintenance Assessments	29,046
Equipment Replacement Assessments	<u>67,382</u>
Total Operating Revenues	<u>134,723</u>
Operating Expenses:	
Unemployment Benefits Paid	85,204
Vehicle Fuel	14,808
Repairs and Maintenance of Vehicles	14,238
Depreciation	<u>63,866</u>
Total Operating Expenses	<u>178,116</u>
Operating Income (Loss)	<u>(43,393)</u>
Nonoperating Revenues (Expenses)	
Interest Income	1,362
Gain or (Loss) From Disposition of Assets	<u>122</u>
Total Nonoperating Revenues (Expenses)	<u>1,484</u>
Capital Contributions:	
General Fund	7,995
Street Fund	16,766
Surface Water Management Fund	<u>10,661</u>
Total Capital Contributions	<u>35,422</u>
Change in Net Assets	(6,487)
Net Assets, January 1	<u>663,608</u>
Net Assets, December 31	<u>\$ 657,121</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Covington  
Statement of Cash Flows  
All Proprietary Fund Types  
For the Fiscal Year Ended December 31, 2010

	<u>Governmental Activities- Internal Service Funds</u>
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	\$ 134,723
Payments Made to Suppliers	(26,921)
Proceeds from Insurance Recoveries	-
Cash Paid for Unemployment Assessments	(89,583)
Net Cash Provided by Operating Activities	<u>18,219</u>
Cash Flows from Noncapital Financing Activities:	
Transfer From Other Funds	-
Net Cash Provided by Noncapital Financing Activities	<u>-</u>
Cash Flows from Capital Activities:	
Proceeds from Disposition of Asset	2,236
Vehicle Replacement	(31,699)
Net Cash Received (used) for Capital Activities	<u>(29,463)</u>
Cash Flows from Investing Activities:	
Proceeds from Sales and Maturities of Investments	124,632
Purchase of Investments	-
Interest Received	3,551
Net Cash Provided by Investing Activities	<u>128,183</u>
Net Increase (Decrease) in Cash and Cash Equivalents	116,939
Cash and Cash Equivalents, January 1	<u>376,577</u>
Cash and Cash Equivalents, December 31	<u>\$ 493,516</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	<u>\$ (43,393)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Increase/(Decrease) in Accounts Payable	2,123
Increase/(Decrease) in Due to Other Governmental Entities	(4,377)
Depreciation	63,866
Total Adjustments to Net Cash Provided by Operating Activities	<u>61,612</u>
Net Cash Provided by Operating Activities	<u>\$ 18,219</u>
Noncash Capital Activities	
Capital Contributions:	
General Fund	\$ 7,995
Street Fund	16,766
Surface Water Management Fund	10,661
Total Contributed Capital	<u>\$ 35,422</u>

The Notes to the Financial Statements are an integral part of this statement.

# **NOTES TO THE FINANCIAL STATEMENTS**

## NOTES TO THE FINANCIAL STATEMENTS

*(For the Fiscal Year Ended December 31, 2010)*

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Covington (City) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting policies of the City of Covington conform to Generally Accepted Accounting Principles for governments, and are regulated by the Washington State Auditor's Office (SAO). The City's significant accounting policies are described in the following notes.

#### A. Reporting Entity

The City of Covington, Washington, was incorporated on August 31, 1997, and operates under the laws of the State of Washington applicable to a Non-Charter Code City with a Council-Manager form of government. The City is governed by a seven-member, elected Council. One of the Councilmembers is elected by the Council to serve as Mayor. The Council appoints the City Manager, who administers the City.

The City's first Council was elected on April 3, 1997. State law provides for the initial Council members to continue in office until their successors are elected and qualified at the next general election after the official date of incorporation; however, the initial period shall not be less than twelve months. Their successors were elected and qualified at the general election held in November 1999, with staggered terms of two and four years. Thereafter, all terms will be for a period of four years, allowing for consistency and staggered elections.

As required by Generally Accepted Accounting Principles, these financial statements present the City of Covington and its component units. A component unit is defined as a legally separate entity that satisfies at least one of the following criteria:

- 1) Elected officials of the City are financially accountable for the separate entity; or,
- 2) The relationship between the City and the entity is such that not including the entity would render these financial statements misleading or incomplete.

The City has no component units.

Certain other agencies may include the name "Covington" in their title but are not included in this report, as the City has no oversight responsibility. These include, but are not limited to, the Covington Water District, Covington Chamber of Commerce, and Covington Sports.

#### B. Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the City of Covington.

The activity of the internal service funds is eliminated to avoid “doubling up” revenues and expenses. However, interfund services provided and used are not eliminated in the Government-wide Statement of Activities. *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. The City does not currently have any business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Our policy is to not allocate indirect costs to 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 and proprietary funds. Major individual governmental 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 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 City of Covington 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.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund has a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. The City’s resources are allocated to and accounted for in separate funds based upon the purposes for which resources are to be spent and the means by which spending activities are controlled.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Special Revenue Funds** - The Special Revenue Funds account for revenues derived from specific revenue sources, such as taxes, grants, or other sources, which are restricted to finance particular activities of the City. The City of Covington uses the following Special Revenue Funds:

- *Development Services Fund.* To account for the City's building activities, which includes activities such as residential and commercial building inspection, plans examination, and processing permits.
- *Parks Fund.* To account for the Parks programs which include parks maintenance as well as the Covington Aquatic Center.
- *Street Fund.* To account for the State collected gasoline tax, which are restricted for street purposes.
- *Cumulative Reserve Fund.* To account for accumulated monies that in general terms can be used for several different municipal purposes as well as for a very specific municipal purpose. The monies accumulated in this fund shall never be expended for any other purpose than those specified, without an approving vote by a two-thirds majority of the members of the legislative authority of the City.
- *Real Estate Excise Tax Funds.* To account for the monies received by the City from the implementation of an excise tax on real estate transactions within the City.
- *Surface Water Management Fund.* To account for the collection of Surface Water Management Fees, which are used for storm water treatment facilities and related infrastructure.

**Debt Service Fund** – This Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Capital Project Funds** – The Capital Project Funds account for financial resources that are designated for the acquisition or construction of major capital improvements. The City of Covington uses the following Capital Project Funds:

- *Capital Investment Program Fund.* To account for the financing of major capital acquisitions and construction projects other than those financed by Proprietary Funds.
- *Local Improvement District Fund 99.01.* To account for resources used to finance specific capital improvements, which are deemed to primarily benefit certain properties located near the project.

The City does not currently have any major Proprietary Funds.

Additionally, the City reports the following fund types:

**Internal Service Funds** – The Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies on a cost reimbursement basis. The City of Covington has the following Internal Service Funds:

- *Unemployment Insurance Fund.* To account for charges to other departments to accumulate sufficient resources to pay reimbursement of unemployment benefits paid by the Employment Security Department of the State and chargeable to the City.
- *Equipment Replacement Fund.* To account for resources through department user charges to assure that sufficient funds are accumulated to replace certain equipment when needed.

The activity of the internal service funds is eliminated to avoid “doubling up” revenues and expenses. However, interfund services provided and used are not eliminated in the Government-wide Statement of Activities.

Amounts reported as program revenues include: 1) charges to customers; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund’s principal ongoing operations. The principal operating revenues of the City’s Internal Service Funds are provided by department user charges. Operating expenses for Internal Service Funds include the cost of providing the services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City of Covington’s policy to use restricted resources first, and then unrestricted resources as needed.

## **D. Budgetary Information**

### **1. Scope of Budget**

In accordance with applicable sections of the Revised Code of Washington, the City prepares and legally adopts an annual balanced budget. Annual appropriated budgets are adopted for all funds on a basis consistent with Generally Accepted Accounting Principles (GAAP) for the fund type.

Annual appropriated budgets are adopted at the fund level. Formal budgetary accounts are integrated into all fund ledgers as a tool for management control. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures.

Appropriations for all funds lapse at year-end.

## **2. Procedures for Adopting the Original Budget**

The City follows the budget procedures as set forth in the Revised Code of Washington (RCW) 35A.33. The following is an overview of the steps the City follows in its budget process: 1) Prior to October 1, the City Manager submits a proposed budget to the City Council. This budget includes proposed expenditures and the means of financing them; 2) The City Council conducts public hearings, as needed, in October, November, and December on the proposed budget in order to obtain citizen comments; 3) After holding a separate public hearing on revenue sources, the City Council may adopt, by November 15, an Ordinance that establishes a Property Tax Levy Rate per \$1,000 of Assessed Valuation; 4) The City Council makes its adjustments (*if any*) to the proposed budget and must by Ordinance, prior to December 31, adopt a final balanced budget; and 5) The final adopted budget is filed with the City Clerk and the Office of the State Auditor. The final budget is available to the public and is distributed to various government agencies and investor services as a courtesy.

## **3. Amending the Budget**

The City Manager is authorized to transfer budgeted amounts, as needed, between departments within any fund, and/or between object classes within a department. However, as the budget is adopted at the fund level, any revisions that alter the total expenditures of a fund would require the budget to be amended. A budget amendment may be done anytime during the year and follows the same process as the original budget adoption, including a public hearing.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all legally authorized changes applicable during the year.

## **E. Assets, Liabilities and Equity**

### **1. Deposits and Investments**

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month-end cash balances in each fund.

Cash and cash equivalents represent the City's cash on hand and demand deposits, including the City's investment in the State Pool.

### **2. Investments**

The City is authorized by State law to purchase certificates of deposit issued by Washington State depositories that participate in a state insurance pool managed by the Washington Public Deposit Protection Commission; investment deposits (Municipal Investor Account) in a qualified public depository located in the State of Washington; U.S. Treasury and Agency securities; banker's acceptances trading in the secondary market; Washington State Treasurer's Local Government Investment Pool; and repurchase agreements with dealers that use authorized securities as collateral. Administrative costs of the Local Government Investment Pool are included in

investment interest earnings and allocated to all funds of the City. The amount applicable to a single fund is not significant, nor readily identifiable.

In accordance with GASB 31, investments in external 2a7-like pools, money market investments, and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. The fair value of the investment is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Investments in the Washington State Treasurer's Pool are available on demand in the amount of the original investment plus interest earnings and are treated as a money-market investment on the City's records. Accordingly, the fair value of the City's position in the Washington State Treasurer's Investment Pool is the same as the value of the City's Pool shares.

### **3. Receivables**

*Accounts Receivable* represents amounts due to the City from private persons or organizations for goods and services furnished by the City.

*Special Assessments Receivable* represents amounts due to the City from private persons or organizations in connection with a compulsory levy made against certain properties to defray all or part of the cost of a specific capital improvement or service deemed to benefit primarily those properties.

*Property Taxes Receivable* are determined and recorded on the levy date, January 1 of each year.

*Intergovernmental Receivables* represent amounts due to the City from other governmental agencies and may include amounts for grants, shared revenues, taxes collected for the City by another agency, as well as goods and services provided by the City to another governmental agency.

### **4. Amounts Due to and from Other Funds**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year, are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." A separate schedule of interfund activity is furnished in Note 11.

### **5. Inventories**

Inventories held by the City in governmental funds consist of expendable supplies, primarily office supplies, held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The value of the City's office supply inventory was not considered material and, as a result, no inventory value is shown.

### **6. Prepaid Items**

Inventories in the governmental funds are recorded as expenditures at the time of purchase. Amounts remaining at year end are immaterial and, therefore, are not reflected in the financial statements for those funds.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both Government-wide and Fund Financial Statements.

## **7. Capital Assets**

Capital assets, which include land, buildings, improvements other than buildings, machinery and equipment, infrastructure, intangibles, and work in progress, are reported in the applicable governmental columns in the Government-wide Financial Statements. The City defines capital assets as buildings, improvements other than buildings, machinery and equipment, and intangibles with an original cost of \$5,000 or more each and infrastructure with an original cost of \$50,000 or more, and an estimated life of more than one year. All land is recorded regardless of initial cost. Such assets are recorded at historical cost or estimated historical cost when historical cost is not known. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are completed. During construction, amounts are shown as work in progress. Infrastructure assets (i.e., roads, sidewalks, and similar assets) are those purchased or constructed since January 1, 2003.

Land and work in progress are not depreciated. Buildings, improvements other than buildings, machinery and equipment, and infrastructure are depreciated using the straight-line method with no salvage value. Depreciation on infrastructure is not taken on the first year of project completion. The City depreciates assets over the following estimated useful lives:

<b><u>Capital Asset Types</u></b>	<b><u>Lives in Years</u></b>
Buildings	20-50
Improvements Other Than Buildings	15
Infrastructure	10-50
Machinery and Equipment	5-10

Intangible assets are comprised of land use rights, i.e., easements. Amortization is based upon the terms of the agreement.

## **8. Compensated Absences**

In governmental funds, compensated absences (i.e., vacation, comp time, and sick leave) are reported only if they have matured, for example, as a result of employee resignations and retirements. All vacation and sick leave is accrued when incurred in the Government-wide Financial Statements.

*Comp Time.* Employees are paid 100% of any accrued comp time upon termination. All comp time is assumed to be liquidated with current expendable resources.

*Vacation Time.* Employees are paid 100% of any accrued vacation upon termination. For purposes of calculating the portion of the liability for compensated absences related to vacation that is to be liquidated from expendable available resources, it is assumed that each employee will use, during the next year, that portion of their December 31, 2010 accrued vacation balance equal to the maximum vacation accrual that they could

earn in the next year this amount is reflected in the due within one year section of the Statement of Net Assets. The remaining balance, in excess of one year's accrual, is then used to calculate the liability that is considered long-term and is also included in the government-wide statements.

*Sick Leave.* Employees who terminate in good standing are eligible to be paid 25% of their accrued and unused sick leave, not to exceed a payment on more than 180 hours. The funds are required to be contributed into the employees HRA VEBA account. The amount of this liability is assumed to be liquidated from current expendable resources and is included in the Government-wide Statements.

As of December 31, 2010 the City has no termination benefits to report.

## **9. Long-Term Debt**

In the Government-wide Financial Statements, and proprietary fund types in the Fund Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

## **10. Deferred Revenue**

In the governmental funds this account includes amounts that may not have met the criteria for revenue recognition or amounts that have met the revenue recognition criteria and are not available to liquidate liabilities of the current period. In the Government-wide Financial Statements this account includes amounts that have not met the revenue recognition criteria.

## **11. Fund Equity**

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

## **NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

### **A. Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets**

The Governmental Funds' Balance Sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the Government-wide Statement of Net Assets. The details of this \$37,370,844 difference are shown on the Governmental Funds Balance Sheet on page number 28.

**B. Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities**

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the Government-wide Statement of Activities. The details of this \$4,669,456 difference are shown on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Fund Types to the Statement of Activities on page number 31.

**NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

There have been no material violations of finance-related legal or contractual provisions and there have been no expenditures exceeding legal appropriations in any of the funds of the City.

**NOTE 4: DEPOSITS AND INVESTMENTS**

**A. Deposits**

On December 31, 2010, the carrying amount of the City’s deposits was \$6,246,194, and the total bank balance was \$6,245,594. The \$600 difference represents petty cash funds held for minor reimbursement requests.

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City’s bank balance is insured by the FDIC which insures the first \$100,000 of the City’s deposits. The deposit balances over \$100,000 are insured by the Washington Public Deposit Protection Commission (WPDPC). The WPDPC is a multiple financial institution collateral pool. State statute permits additional amounts to be assessed on a pro rata basis to members of the pool in the event the pool’s collateral should be insufficient to cover a loss.

The City does not have a formal policy for custodial risk beyond the requirements of State statute. State law restricts deposit of funds in financial institutions physically located in Washington unless expressly permitted by statute and authorized by the WPDPC.

As of December 31, 2010, the City’s total deposits and cash equivalents, including investment in the State Treasurer’s Pool, consisted of the following:

Operating Accounts	\$ 248,688
State Treasurer’s Pool	5,908,291
Forfeiture Account	88,615
Petty Cash	<u>600</u>
<b>Total Cash and Cash Equivalents</b>	<b><u>\$6,246,194</u></b>

## B. Investments

The City's investment policy developed by the Finance Department is adopted by the City Council. Authority to manage the investment program is derived from City of Covington Resolution number 07-11. This resolution gives the Finance Director authority to invest in any of the securities identified as eligible investments as defined by State statute with primary emphasis of safety, principal, liquidity, and yield.

The City does not allow investment in collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), and other principal only (POs) and interest only (IOs) obligations that are secured with mortgages issued by any federal agency, instrumentality or private firm. No derivative products will be utilized unless permitted by law, and not without prior City Council approval. No derivative products shall be utilized without an analysis by an independent financial advisor. No derivative products shall be used for the purpose of interest rate speculation. The City does not currently use derivative products.

The City participates in the Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. It is managed by the Office of the State Treasurer, which is responsible for establishing the investment policy for the pool.

The LGIP was established by the State of Washington in 1986 for the purpose of providing political subdivisions of the State a mechanism whereby they may utilize the resources of the State Treasurer's Office to maximize the potential of surplus funds while ensuring the safety of public funds. Regulatory oversight for these investments is provided as prescribed by state law. The State Auditor audits the accounts of the State Treasurer to determine the compliance of investment activities with state statutes and the investment policy. Also, an independent audit of the Pool's financial statements is performed annually. The State Treasurer has created an Advisory Committee consisting of eight members appointed by participant associations and four members appointed by the State Treasurer. The committee meets at least quarterly to provide advice on the operation of the pool.

The table below identifies the investment types that are authorized for the City of Covington by the State of Washington (or the City's Investment Policy where more restrictive):

<b><u>Authorized Investment Type</u></b>	<b><u>Maximum % of Portfolio</u></b>
U.S. Treasury Debt Obligations	100%
U.S. Agency Coupon Securities	100%
U.S. Agency Discount Notes	100%
Repurchase Agreements	25%
Certificates of Deposit	25%
Interest Bearing Bank Deposits	25%
Bankers Acceptances	25%
Commercial Paper	25%
State of Washington Local Government Investment Pool (LGIP)	100%

*Interest Rate Risk:* As a means of minimizing risk of loss arising from interest rate fluctuations, the City's investment policy requires that no single institution or security is

invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and the State Investment Pool, the City will invest no more than twenty-five percent (25%) of its total investment portfolio in a single security type or with a single financial institution. Unless specifically matched to a certain cash flow, or estimated to meet cash flow needs, the City will not directly invest in securities maturing more than three (3) years from the date of purchase.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity</u>				<u>Credit Rating</u>
		<u>3 Months or Less</u>	<u>3 to 12 Months</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	
U.S. Agency Bonds	\$ 1,501,618	\$ -	\$ -	\$ 1,501,618	\$ -	AAA
State of Washington Local Governmental Investment Pool (LGIP)	<u>5,908,291</u>	<u>5,908,291</u>	-	-	-	Unrated
Total	<u>\$ 7,409,909</u>	<u>\$ 5,908,291</u>	<u>\$ -</u>	<u>\$ 1,501,618</u>	<u>\$ -</u>	

The LGIP is an un-rated 2a-7 like pool, as defined by GASB 31. Accordingly participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. For financial statement purposes the LGIP funds are included in cash and cash equivalents.

*Credit risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The City's investment policy limits the type of securities available for investment to Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System, certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States, Bonds of the State of Washington and any local government in the State provided they carry a current debt rating in the top three categories of a nationally recognized rating agency at the time of investment, Prime Banker's Acceptances purchased on the secondary market with ratings of A1/P1 by a nationally recognized rating agency, and in the LGIP. The City's investments in the obligations of U.S. agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor's Service.

The credit risk of the LGIP is limited to obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

*Custodial Credit Risk:* Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policies require that all investments be held by the City's third party safekeeping agent in the City's name. As of December 31, 2010 all of the \$1,501,618 investments in U.S. agency debt obligations were registered, and held by its safekeeping agent in the City's name. Therefore, the City has no outstanding investments that were exposed to custodial credit risk.

**NOTE 5: PROPERTY TAXES**

The King County Treasurer acts as an agent to collect property taxes in the County for all taxing authorities within the County. Collections are distributed daily via wire transfer from the County. Significant dates in regards to the property tax collection cycle are outlined below:

<u>Date:</u>		<u>Property Tax Calendar:</u>
January	1	Taxes are levied and become an enforceable lien against properties
February	14	Tax bills are mailed
April	30	First of two equal installment payments is due
May	31	A penalty of 3% is assessed on delinquent current year taxes
May	31	Assessed value of property established for next year's levy
October	31	Second installment is due
November	30	A penalty of 8% is assessed on delinquent current year taxes

Property taxes are levied by the County Assessor and collected by the County's Budget/Finance Office. Payments may also be mailed to the County Assessor's Office. A lien is placed on the property on the first day of the levy year and may be paid in two equal installments if the total amount exceeds \$50. Delinquent taxes are charged an interest rate of 12%. If not paid by the assigned date, additional penalties will be assessed—an additional 3% after May 31 and an additional 8% after November 30 of the same year.

The State Legislature has established the maximum regular property tax rate for cities at \$3.60 per \$1,000 of assessed valuation. The entire amount is not available to the City if the City has elected to annex into the fire district and/or library district that may be serving the City. The citizens, on September 16, 1997, did vote to annex into the King County Fire District No. 37 and the King County Library District. As a result, the maximum regular tax levy available to the City of Covington is \$1.60, which is \$3.60 less \$1.50 for the fire district, and \$.50 for the library district.

The City of Covington's regular levy for 2010 was \$1.15290 per \$1,000 of assessed valuation, including exempt properties, of \$1,815,495,951 for a total regular levy of \$2,093,085.

Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate.

## NOTE 6: CAPITAL ASSETS

### A. Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 18,561,280	\$ 926	\$ -	\$ 18,562,206
Intangibles	-	947,893	-	947,893
Work in Progress	9,138,881	2,712,152	(84,602)	11,766,431
Total capital assets, not being depreciated	<u>27,700,161</u>	<u>3,660,971</u>	<u>(84,602)</u>	<u>31,276,530</u>
Capital assets, being depreciated:				
Buildings	729,346	-	-	729,346
Improvements other than buildings	657,010	-	-	657,010
Machinery and equipment	699,037	84,415	(61,966)	721,486
Infrastructure	<u>20,353,869</u>	<u>90,572</u>	<u>-</u>	<u>20,444,441</u>
Total capital assets being depreciated	<u>22,439,262</u>	<u>174,987</u>	<u>(61,966)</u>	<u>22,552,283</u>
Less accumulated depreciation for:				
Buildings	(19,054)	(36,467)	-	(55,521)
Improvements other than buildings	(254,898)	(47,255)	-	(302,153)
Machinery and equipment	(428,618)	(94,801)	43,700	(479,719)
Infrastructure	<u>(612,169)</u>	<u>(204,671)</u>	<u>-</u>	<u>(816,840)</u>
Total accumulated depreciation	<u>(1,314,739)</u>	<u>(383,194)</u>	<u>43,700</u>	<u>(1,654,233)</u>
Total capital assets, being depreciated net	<u>21,124,523</u>	<u>(208,207)</u>	<u>(18,266)</u>	<u>20,898,050</u>
Governmental activities capital assets, net	<u>\$ 48,824,684</u>	<u>\$ 3,452,764</u>	<u>\$ (102,868)</u>	<u>\$ 52,174,580</u>

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

Governmental Activities	
General Government	\$ 46,821
Community Development	3,873
Public Safety	-
Culture and Recreation	90,619
Streets and Highways	178,015
Capital assets held by the government's Internal Service Funds	<u>63,866</u>
Total depreciation expense - governmental activities	<u>\$383,194</u>

## B. Construction Commitments

The City of Covington has active construction projects as of December 31, 2010.

At year-end the government's commitments with contractors are as follows:

<u>Project</u>	<u>Contractor</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Covington Way/ State Route 516	Northwest Cascade, Inc.	6,731,495	\$ 64,199
SR 516 Safety Widening	Rodarte Construction, Inc.	2,275,228	73,173
		<u>\$ 9,006,723</u>	<u>\$ 137,372</u>

## NOTE 7: PENSION PLANS

### A. Public Employee's Retirement System (PERS) Replacement Plan

The City elected not to join the State's Public Employee's Retirement System (*PERS*). Instead, the City participates in a Section 401(a) money purchase government retirement plan and trust administered through Nationwide Retirement Solutions. The plan is a qualified defined contribution pension plan registered through the Internal Revenue Service (*IRS*). Contributions to the plan are not subject to federal income tax. The City Council is the authority responsible for establishing and amending the pension provisions and contribution requirements. All eligible employees, as a condition of employment, are required to participate, including a mandatory employee contribution. Eligible employees include all regular full-time and part-time employees, except Council members, temporary employees, and part-time summer workers.

Vesting in the employer's PERS replacement contributions does not occur until completion of five years of service. Upon completion of five years of service, the employee becomes 100% vested in the employer contributions. The employee is always 100% vested in their mandatory contributions. The City's payroll for employees covered by the PERS Replacement Program for the period January 1, 2010 through December 31, 2010, was \$2,789,105. The City's total payroll for the same period was \$2,986,869. The table below shows the required percentage contribution and the total actual contributions for 2010 made by the employer and employee to this qualified defined contribution plan. Contributions are made bi-weekly.

<u>PERS Replacement</u>	<u>Percentage Contribution</u>	<u>Contribution Amount</u>
Employee	3.3%	\$92,040
Employer	7.5%	\$209,183

Each employee directs his/her investments among various investment options for both their contributions, as well as the City's contributions. Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age. Employer contributions will be distributed to the employee based upon the vesting schedule. The contract has identified regular retirement age at 55 with no provision for early retirement.

Plan assets, which consist of stocks and bonds through a variety of mutual funds, and guaranteed insurance contracts, are not the properties of the City and are not subject to the claims of the City's general creditors.

**B. Social Security Replacement Plan**

The City elected not to join Social Security. Instead, the City participates in a 401(a) money purchase government retirement plan and trust. This is a qualified defined contribution plan registered through the Internal Revenue Service. The plan is administered by Nationwide Retirement Solutions. Contributions to the plan are not subject to federal income tax. All employees and the City Council members, who are under the Omnibus Budget Reconciliation Act (OBRA) of 1990, are required to participate.

The City's payroll for employees covered by the Social Security Replacement Program for the period January 1, 2010 through December 31, 2010 was \$2,986,869. The City's total payroll for the same period was \$2,986,869. The table below shows the required percentage contribution and the total actual contributions for 2010 made by the employer and employee to this qualified defined contribution plan. Contributions are made bi-weekly.

<u>Social Security Replacement</u>	<u>Percentage Contribution</u>	<u>Contribution Amount</u>
Employee	6.2%	\$185,186
Employer	5.6%	\$167,265

Each employee directs his/her investments among the various investment options for both their contributions, as well as the City's contribution. Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age. The contract has identified regular retirement age at 55, with no provision for early retirement. The employee is always 100% vested in both employee and employer contributions.

Plan assets, which consist of stocks and bonds through a variety of mutual funds and guaranteed insurance contracts, are not the properties of the City and are not subject to the claims of the City's general creditors.

As part of the Social Security Replacement Plan, the City has additional obligations: 1) to purchase term life insurance for each employee in an amount of one times salary up to \$50,000; (2) to purchase long-term disability insurance; and (3) survivor life insurance for each employee. The City pays 100% of the costs for these insurance coverages for each eligible employee.

**NOTE 8: RISK MANAGEMENT**

The City of Covington is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 145 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually. Settlements have not exceeded insurance coverage in any of the past three years.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

The City's Industrial Insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard rates per working hour and is computed by the basic premium rate assigned to the business risk classification.

The State of Washington, Department of Employment Security, administers unemployment insurance. The City has elected to make payments in lieu of tax (a reimbursable employer). A reimbursable employer receives a billing every three months for its share of unemployment insurance benefits received by former employees during the preceding calendar quarter. The City has set up an internal service fund to allocate the cost to the appropriate departments and make payments when necessary.

## **NOTE 9: LONG-TERM DEBT AND LEASES**

### **A. Long-Term Debt**

The various categories of long-term debt reflected on the City's financial statements are briefly described in the following paragraphs.

General obligation bonds are backed by the City's full faith and credit. Proceeds are typically used for the acquisition or construction of major capital facilities. "Councilmanic Bonds" are general obligation bonds issued by the City Council without voter approval. Under state law, repayment of these bonds must be paid from general City revenues. The general obligations bond issues are recorded under governmental activities in the statement of net assets.

Special assessment bonds are issued to finance construction of local improvement district (LID) projects and are repaid through assessments collected from property owners benefiting from the related improvements. Although the bonds are secured by liens against assessed properties, the City is also required under State law to establish a guaranty account to provide a means of paying LID bond debt service obligations in the event there are insufficient resources in the LID Control Fund to do so. Due to the City's legal obligation to maintain this guaranty fund, special assessment bonds are considered a general government obligation and are, therefore, recorded in governmental activities on the Statement of Net Assets. There are currently no delinquent accounts.

Compensated absences associated with governmental fund operations are reported in the Government-wide Statements – Statement of Net Assets. As of December 31, 2010, the City obligated \$118,349 as the portion of compensated absences not expected to be funded with current available expendable resources. For Governmental Activities, the General Fund generally liquidates compensated absences.

Other long-term debt incurred by the governmental funds includes the State Department of Community Trade and Economic Public Works Trust Fund loan, which has been granted to finance designated capital project construction costs. General government obligations are recorded in governmental activities on the statement of net assets.

The following schedule details the long-term liability activity and balances of the City as of December 31, 2010.

**Changes in Long-Term Liabilities**

Description	Interest Rate	Fund Used to Pay Debt	Issue Date	Maturity Date	Original Debt Issued	Debt Outstanding 1/1/10	Debt Issued in 2010	Debt Redemption in 2010	Debt Outstanding 12/31/2010	Due Within One Year
<b>Governmental activities:</b>										
General obligation bonds - Councilmanic:										
2007A (Tax-Exempt)	4.15%	Long-Term Debt Service	6/5/2007	11/1/2027	\$ 10,000,000	\$ 10,000,000	\$ -	\$ -	\$ 10,000,000	-
Add: bond premium					52,655	44,882	-	2,633	42,249	-
2007T (Taxable)	5.43%	Long-Term Debt Service	6/5/2007	11/1/2015	2,505,000	2,490,000	-	200,000	2,290,000	490,000
2008 (Tax-Exempt)	4.00%	Long-Term Debt Service	6/10/2008	6/1/2023	308,068	284,549	-	16,263	268,286	16,920
Special assessment debt with government commitment	4.80%	L.I.D. 99.01	7/1/2004	7/1/2021	460,100	149,557	-	35,321	114,236	-
Compensated absences						360,585	79,304	42,577	397,312	278,963
Other Long-Term Debt:										
DCTED Public Works Trust Fund Loan	0.50%	Long-Term Debt Service	7/1/2004	7/1/2024	<u>3,596,225</u>	<u>3,223,436</u>	<u>-</u>	<u>214,896</u>	<u>3,008,540</u>	<u>214,896</u>
<b>TOTAL</b>					<u>\$ 16,922,048</u>	<u>\$ 16,553,009</u>	<u>\$ 79,304</u>	<u>\$ 511,690</u>	<u>\$ 16,120,623</u>	<u>\$ 1,000,779</u>

As of December 31, 2010, the City's annual debt service requirements for general obligations, and special assessment bonds were:

**Annual Debt Service Requirements to Maturity**

Year	General Obligation		Special Assessment		Governmental Activities Other Debt		Total Annual Requirements
	Bonds Principal	Interest	Bonds Principal	Interest	Principal	Interest	
2011	506,920	546,118	-	5,483	214,896	15,043	1,288,460
2012	532,603	519,856	-	5,483	214,896	13,968	1,286,806
2013	563,314	492,107	-	5,483	214,896	12,894	1,288,694
2014	589,054	462,645		5,483	214,896	11,819	1,283,897
2015	619,824	431,438		5,483	214,896	10,745	1,282,386
2016-2020	3,546,800	1,718,511	-	27,416	1,074,479	37,607	6,404,813
2021-2025	4,269,771	932,783	114,235	5,026	859,583	10,745	6,192,143
2026-2027	<u>1,930,000</u>	<u>120,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,050,244</u>
<b>Total</b>	<u>\$ 12,558,286</u>	<u>\$ 5,223,702</u>	<u>\$ 114,235</u>	<u>\$ 59,859</u>	<u>\$ 3,008,541</u>	<u>\$ 112,820</u>	<u>\$ 21,077,444</u>

**B. Operating Leases**

In March of 2002, the City entered into a 15-year lease for 17,079 square feet of professional office space to house the administrative staff and Council Chambers. The new building was completed and the City moved to the new facility on December 26, 2002. The lease provides for two 5-year extensions and allows the City to buy-out of the lease at the end of 10 years. This space is part of a new development on the west end of the City's downtown area that includes 40,000+ square feet of retail and 32,000 square feet of professional office space. The City is leasing the entire bottom floor of this two-story office complex as well a portion of the upper floor. Total cost for this lease was \$315,247 for the year ended December 31, 2010.

The lease is triple net and this table makes no provision for those additional costs. The future minimum lease payments for the lease are as follows:

<b>Fiscal Year</b>	
<b><u>Ending</u></b>	<b><u>Amount</u></b>
2011	\$ 323,129
2012	331,207
2013	301,077
2014	308,604
2015	356,673
2016-2021	740,320
Total	<u>\$2,361,010</u>

**NOTE 10: CONTINGENCIES AND LITIGATION**

The City has recorded in its financial statements all material liabilities, including an estimate for situations that are not yet resolved.

In this regard, the City has contracts with King County for law enforcement services and for public works/street maintenance work. According to these contracts, the City of Covington is to be defended, indemnified, and held harmless by King County where claims arise or result from actions provided by King County through these contracts.

The City also participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

**NOTE 11: INTERFUND ACTIVITY**

The composition of interfund activity as of December 31, 2010, is as follows:

Interfund transfers:

	Transfer Out:						
	General Fund	Parks Fund	Real Estate Excise Tax 1st Qtr % Fund	Real Estate Excise Tax 2nd Qtr % Fund	Surface Water Management Fund	Capital Investment Program Fund	Total
Transfer In:							
Parks Fund	\$ 210,937	\$ -	\$ -	\$ -	\$ -	\$ 41,522	\$ 252,459
Street Fund	365,739	-	-	-	-	-	365,739
Surface Water Management Fund	13,914	-	-	-	-	-	13,914
Long-Term Debt Service Fund	382,457	27,483	364,625	229,885	-	-	1,004,450
Capital Investment Program Fund	-	-	-	-	53,500	-	53,500
Total Transfers Out	<u>\$ 973,047</u>	<u>\$ 27,483</u>	<u>\$ 364,625</u>	<u>\$ 229,885</u>	<u>\$ 53,500</u>	<u>\$ 41,522</u>	<u>\$ 1,690,062</u>

The transfers from the General Fund were general operating transfers for ongoing expenses that are being funded from Utility Tax revenues. The transfer from the Parks Fund to the Long-Term Debt Service Fund is to pay debt service. The transfers from the Real Estate Excise Tax 1<sup>st</sup> and 2<sup>nd</sup> Qtr % Funds to the Long-Term Debt Service Fund were for debt service payments. The transfer from the Surface Water Management Fund to the Capital Investment Program Fund is to fund a capital investment program project. The transfer from the Capital Investment Program Fund to the Parks Fund is for monies received to be used for maintenance of the Aquatic Center.

**NOTE 12: RESTRICTED NET ASSETS**

The Government-wide Statement of Net Assets reports \$899,236 of restricted net assets which is restricted by enabling legislation.

**NOTE 13: OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

The City does not currently offer any postemployment benefit plans.

# **COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**

# **Nonmajor Governmental Funds**

City of Covington  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2010

	<u>Special Revenue</u>	<u>Debt Service</u>	
	<u>Contingency</u>	Local Improvement District 99-01 Guaranty	<u>Total Nonmajor Governmental Funds</u>
<b><u>Assets and other Debits</u></b>			
Cash and Cash Equivalents	\$ 287,764	\$ 6,158	\$ 293,922
Deposit Internal Fiscal Agent	-	46,010	46,010
Investments	131,820	-	131,820
Interest Receivable	-	-	-
Intergovernmental Receivable	-	-	-
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 419,584</u>	<u>\$ 52,168</u>	<u>\$ 471,752</u>
<b><u>Liabilities</u></b>			
Accounts Payable	\$ 6	\$ -	\$ 6
Due to Other Funds	-	-	-
Deferred Revenue	-	-	-
	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>6</u>	<u>-</u>	<u>6</u>
<b><u>Fund Balances</u></b>			
Reserved for Deposit - Internal Fiscal Agency	-	46,010	46,010
Unreserved, Undesignated	419,578	6,158	425,736
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u>\$ 419,584</u>	<u>\$ 52,168</u>	<u>\$ 471,752</u>

City of Covington  
Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended December 31, 2010

	<u>Special Revenue</u>	<u>Debt Service</u>	
	Contingency	Local Improvement District 99-01 Guaranty	Total Nonmajor Governmental Funds
Revenues:			
Taxes	\$ -	\$ -	\$ -
Miscellaneous	(666)	143	(523)
Total Revenues	<u>(666)</u>	<u>143</u>	<u>(523)</u>
Expenditures:			
Current:			
Community Development	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(666)</u>	<u>143</u>	<u>(523)</u>
Other Financing Sources (Uses):			
Transfer In	-	-	-
Transfer Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(666)	143	(523)
Fund Balances, January 1	<u>420,244</u>	<u>52,025</u>	<u>472,269</u>
Fund Balances, December 31	<u>\$ 419,578</u>	<u>\$ 52,168</u>	<u>\$ 471,746</u>

# Special Revenue

Special Revenue Funds are used to account for specific revenues sources (other than expendable trusts or major capital projects) that are legally restricted for expenditure for specified purposes. The City of Covington has the following nonmajor special revenue fund:

Contingency Fund – This fund is used to accumulate monies with which to meet any municipal expense, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time of adopting the annual budget or to provide monies for certain emergencies which may arise. The amount accumulated shall not exceed the equivalent of thirty-seven and one half cents per thousand dollars of assessed valuation of property within the City at such time.

City of Covington  
 Contingency Fund  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances  
 Budget and Actual  
 For the Fiscal Year Ended December 31, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues:				
Miscellaneous	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (666)</u>	<u>\$ (666)</u>
Total Revenues	<u>-</u>	<u>-</u>	<u>(666)</u>	<u>(666)</u>
Expenditures:				
Current:				
General Government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>(666)</u>	<u>(666)</u>
Other Financing Sources (Uses):				
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>-</u>	<u>-</u>	<u>(666)</u>	<u>(666)</u>
Fund Balances, January 1	<u>429,792</u>	<u>420,244</u>	<u>420,244</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 429,792</u></u>	<u><u>\$ 420,244</u></u>	<u><u>\$ 419,578</u></u>	<u><u>\$ (666)</u></u>

# Debt Service

Debt Service Funds are used to account for the accumulation of resources, for and the payment of, general long-term debt principal and interest, which also include special assessment guaranty funds. The City of Covington has the following nonmajor debt service funds:

Local Improvement District 99.01 Guaranty Fund – This fund is required under State law to provide a means of paying LID bond debt service obligations in the event there are insufficient resources in the LID Control Fund to do so.

Long-Term Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

City of Covington  
Local Improvement District 99-01 Guaranty Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues:				
Miscellaneous	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 143</u>	<u>\$ (357)</u>
Total Revenues	<u>500</u>	<u>500</u>	<u>143</u>	<u>(357)</u>
Expenditures:				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>500</u>	<u>500</u>	<u>143</u>	<u>(357)</u>
Other Financing Sources (Uses):				
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>500</u>	<u>500</u>	<u>143</u>	<u>(357)</u>
Fund Balances, January 1	<u>52,166</u>	<u>52,025</u>	<u>52,025</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 52,666</u></u>	<u><u>\$ 52,525</u></u>	<u><u>\$ 52,168</u></u>	<u><u>\$ (357)</u></u>

City of Covington  
 Long-Term Debt Service Fund  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances  
 Budget and Actual  
 For the Fiscal Year Ended December 31, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues:				
Total Revenues	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Debt Service:				
Principal	431,159	431,159	431,158	(1)
Interest	<u>573,292</u>	<u>573,292</u>	<u>573,292</u>	<u>-</u>
Total Expenditures	<u>1,004,451</u>	<u>1,004,451</u>	<u>1,004,450</u>	<u>(1)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,004,451)</u>	<u>(1,004,451)</u>	<u>(1,004,450)</u>	<u>1</u>
Other Financing Sources (Uses):				
Transfer In	<u>1,004,451</u>	<u>1,004,451</u>	<u>1,004,450</u>	<u>(1)</u>
Total Other Financing Sources (Uses)	<u>1,004,451</u>	<u>1,004,451</u>	<u>1,004,450</u>	<u>(1)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	-	-
Fund Balances, January 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

# Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The City of Covington has the following Capital Project funds:

Capital Investment Program Fund – This fund is to account for the financing of major capital acquisitions and construction projects other than those financed by Proprietary Funds.

Local Improvement District No. 99.01 Fund – This fund is used to account for resources used to finance specific capital improvements, which are deemed to primarily benefit certain properties located near the project. Resources include City funds, Grants, and Local Improvement Bond proceeds. The project as originally funded includes certain street improvements including sidewalks and signalization in an area located generally in the downtown area.

City of Covington  
Capital Investment Program Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	2,038,955	2,573,290	2,246,734	(326,556)
Charges for Goods and Services	-	-	480,616	480,616
Interest Income	15,000	15,000	2,490	(12,510)
Miscellaneous	-	-	-	-
<b>Total Revenues</b>	<b><u>2,053,955</u></b>	<b><u>2,588,290</u></b>	<b><u>2,729,840</u></b>	<b><u>141,550</u></b>
Expenditures:				
Current:				
Streets and Highways	-	-	-	-
Culture and Recreation	-	-	-	-
Capital Outlay:				
General Government	-	-	-	-
Culture and Recreation	237,723	237,723	126,374	(111,349)
Streets and Highways	1,973,500	2,507,835	2,591,976	84,141
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Bond Issuance Costs	-	-	-	-
<b>Total Expenditures</b>	<b><u>2,211,223</u></b>	<b><u>2,745,558</u></b>	<b><u>2,718,350</u></b>	<b><u>(27,208)</u></b>
Excess (Deficiency) of Revenues Over Expenditures	<u>(157,268)</u>	<u>(157,268)</u>	<u>11,490</u>	<u>168,758</u>
Other Financing Sources (Uses):				
Transfer In	424,409	424,409	53,500	(370,909)
Transfer Out	(50,000)	(91,529)	(41,522)	50,007
General Obligation Bond Proceeds	-	-	-	-
Premium on Bonds	-	-	-	-
Intergovernmental Loan Proceeds	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b><u>374,409</u></b>	<b><u>332,880</u></b>	<b><u>11,978</u></b>	<b><u>(320,902)</u></b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	217,141	175,612	23,468	(152,144)
Fund Balances, January 1	<u>682,019</u>	<u>1,048,819</u>	<u>1,048,819</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 899,160</u></u>	<u><u>\$ 1,224,431</u></u>	<u><u>\$ 1,072,287</u></u>	<u><u>\$ (152,144)</u></u>

City of Covington  
Local Improvement District 99-01 Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2010

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Charges for Goods and Services	-	-	-	-
Special Assessments	52,396	52,396	52,122	(274)
Interest Income	100	100	47	(53)
Penalties	-	-	-	-
<b>Total Revenues</b>	<b>52,496</b>	<b>52,496</b>	<b>52,169</b>	<b>(327)</b>
Expenditures:				
Capital Outlay:				
Streets and Highways	750	750	697	(53)
Debt Service:				
Principal	28,710	28,710	35,321	6,611
Interest	7,179	7,179	7,179	-
<b>Total Expenditures</b>	<b>36,639</b>	<b>36,639</b>	<b>43,197</b>	<b>6,558</b>
Excess (Deficiency) of Revenues Over Expenditures	15,857	15,857	8,972	(6,885)
Other Financing Sources (Uses):				
Transfer Out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	15,857	15,857	8,972	(6,885)
Fund Balances, January 1	7,412	8,941	8,941	-
<b>Fund Balances, December 31</b>	<b>\$ 23,269</b>	<b>\$ 24,798</b>	<b>\$ 17,913</b>	<b>\$ (6,885)</b>

City of Covington  
Local Improvement District Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
From Project Inception (1998) and for the Fiscal Year Ended December 31, 2010

	<u>Project Authorization</u>	<u>Prior Years Actual</u>	<u>Current Year Actual</u>	<u>Project To Date Actual</u>
Revenues:				
Intergovernmental	\$ 1,067,743	\$ 1,100,637	\$ -	\$ 1,100,637
Charges for Goods and Services	-	19,776	-	19,776
Special Assessment	-	1,444,746	52,122	1,496,868
Interest Income	-	196,837	47	196,884
Miscellaneous:				
Developer Contributions	75,000	3,430	-	3,430
Rental Income	-	95	-	95
Penalties	-	16,720	-	16,720
<b>Total Revenues</b>	<u>1,142,743</u>	<u>2,782,241</u>	<u>52,169</u>	<u>2,834,410</u>
Expenditures:				
Capital Outlay:				
Streets and Highways	2,453,916	3,155,203	697	3,155,900
Debt Service:				
Principal	-	310,543	35,321	345,864
Interest	-	293,981	7,179	301,160
<b>Total Expenditures</b>	<u>2,453,916</u>	<u>3,759,727</u>	<u>43,197</u>	<u>3,802,924</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,311,173)</u>	<u>(977,486)</u>	<u>8,972</u>	<u>(968,514)</u>
Other Financing Sources (Uses):				
Transfer In (General Fund)	213,770	669,297	-	669,297
Transfer Out (Guaranty Fund)	-	(46,010)	-	(46,010)
Special Assessment Bond Proceeds	1,097,403	460,100	-	460,100
<b>Total Other Financing Sources (Uses)</b>	<u>1,311,173</u>	<u>1,083,387</u>	<u>-</u>	<u>1,083,387</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	105,901	8,972	<u>\$ 114,873</u>
Fund Balances, January 1	-	-	8,941	
Prior Year Correction	-	(96,960)	-	
<b>Fund Balances, December 31</b>	<u>\$ -</u>	<u>\$ 8,941</u>	<u>\$ 17,913</u>	

# General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required legally, or by sound financial management to be accounted for in another fund.

Generally, the General Fund is used to account for those traditional governmental services of the City such as finance, planning and community development, and general administrative services.

City of Covington  
General Fund  
Schedule of Revenues - Final Budget and Actual  
For the Fiscal Year Ended December 31, 2010  
(with Comparative Actual Totals for the Fiscal Year Ended December 31, 2009)

	Final Budget	Actual	Variance Over (Under)	Actual 2009
<b><u>Taxes</u></b>				
Property Tax	\$ 2,112,000	\$ 1,976,819	\$ (135,181)	\$ 2,046,294
Sales Tax	2,420,000	2,237,501	(182,499)	2,084,092
Local Criminal Justice	368,000	337,172	(30,828)	342,588
Utility Tax	2,060,000	1,778,346	(281,654)	1,857,471
Other	60	31	(29)	53
Total Taxes	<u>6,960,060</u>	<u>6,329,869</u>	<u>(630,191)</u>	<u>6,330,498</u>
<b><u>Intergovernmental</u></b>				
MVET-Criminal Justice	45,999	47,686	1,687	49,330
Liquor Board Profits	144,272	140,224	(4,048)	119,454
Liquor Excise Tax	83,793	86,848	3,055	85,649
Grants	102,060	92,072	(9,988)	89,108
Other	-	-	-	-
Total Intergovernmental	<u>376,124</u>	<u>366,830</u>	<u>(9,294)</u>	<u>343,541</u>
<b><u>Charges for Goods and Services</u></b>				
Planning and Development Fees	1,000	3,354	2,354	1,404
Public Safety	8,500	6,759	(1,741)	-
Interfund Services Payment	584,468	588,194	3,726	866,000
Miscellaneous	788	1,703	915	9,320
Total Charges for Goods and Services	<u>594,756</u>	<u>600,010</u>	<u>5,254</u>	<u>876,724</u>
<b><u>Fines and Forfeitures</u></b>				
City Court	120,925	127,662	6,737	138,234
Total Fines and Forfeitures	<u>120,925</u>	<u>127,662</u>	<u>6,737</u>	<u>138,234</u>
<b><u>Miscellaneous</u></b>				
Interest Income	36,300	8,250	(28,050)	32,542
Technology Fee	28,000	33,022	5,022	32,732
Rentals	15,000	3,989	(11,011)	17,350
Other	9,500	30,100	20,600	74,591
Total Miscellaneous	<u>88,800</u>	<u>75,361</u>	<u>(13,439)</u>	<u>157,215</u>
<b><u>Other Financing Sources</u></b>				
Compensation Loss of Asset	-	14	14	-
Total Other Financing Sources	<u>-</u>	<u>14</u>	<u>14</u>	<u>-</u>
<b>Total General Fund Revenues</b>	<b><u>\$ 8,140,665</u></b>	<b><u>\$ 7,499,746</u></b>	<b><u>\$ (640,919)</u></b>	<b><u>\$ 7,846,212</u></b>

# Internal Service Funds

Internal Service Funds are used to account for the financing of good or services provided by one department or agency to other departments or agencies on a cost reimbursement basis. The City of Covington has the following internal service funds:

Unemployment Insurance Fund – This fund is used to account for charges to other departments to accumulate sufficient resources to pay reimbursement of unemployment benefits paid by the Employment Security Department of the State and chargeable to the City. The City has elected the in-lieu contribution method for payment of unemployment compensation.

Equipment Replacement Fund – This fund is used to account for resources through department user charges to assure that sufficient funds are accumulated to replace certain equipment when needed.

City of Covington  
Internal Service Funds  
Combining Statement of Net Assets  
December 31, 2010

	<u>Unemployment Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
<b><u>Assets and other Debits</u></b>			
Current Assets:			
Cash and Cash Equivalents	\$ 148,484	\$ 345,032	\$ 493,516
Investments	-	-	-
Interest Receivable	-	-	-
Due from other Governments	-	3,413	3,413
Total Current Assets	<u>148,484</u>	<u>348,445</u>	<u>496,929</u>
Noncurrent Assets:			
Capital Assets:			
Machinery and Equipment	-	329,822	329,822
Accumulated Depreciation	-	(154,417)	(154,417)
Total Capital Assets (net of accumulated depreciation)	<u>-</u>	<u>175,405</u>	<u>175,405</u>
Total Assets	<u>148,484</u>	<u>523,850</u>	<u>672,334</u>
<b><u>Liabilities</u></b>			
Current Liabilities:			
Accounts Payable	-	3,541	3,541
Due to Other Governmental Entities	11,672	-	11,672
Deferred Revenue	-	-	-
Total Liabilities	<u>11,672</u>	<u>3,541</u>	<u>15,213</u>
<b><u>Net Assets</u></b>			
Invested in Capital Assets	-	175,405	175,405
Unrestricted	<u>136,812</u>	<u>344,904</u>	<u>481,716</u>
Total Net Assets	<u>\$ 136,812</u>	<u>\$ 520,309</u>	<u>\$ 657,121</u>

City Of Covington  
Internal Service Funds  
Combining Statement of Revenues, Expenses, and  
Changes in Fund Net Assets  
For the Fiscal Year Ended December 31, 2010

	<u>Unemployment Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
Operating Revenues:			
Unemployment Charges	\$ 38,295	\$ -	\$ 38,295
Fuel and Maintenance Assessments	-	29,046	29,046
Equipment Replacement Assessments	-	67,382	67,382
	<u>38,295</u>	<u>96,428</u>	<u>134,723</u>
Total Operating Revenues			
Operating Expenses:			
Unemployment Benefits Paid	85,204	-	85,204
Vehicle Fuel	-	14,808	14,808
Repairs and Maintenance of Vehicles	-	14,238	14,238
Depreciation	-	63,866	63,866
	<u>85,204</u>	<u>92,912</u>	<u>178,116</u>
Total Operating Expenses			
Operating Income (Loss)	<u>(46,909)</u>	<u>3,516</u>	<u>(43,393)</u>
Nonoperating Revenues (Expenses)			
Interest Revenue	450	912	1,362
Gain or (Loss) on Disposition of Capital Assets	-	122	122
	<u>450</u>	<u>1,034</u>	<u>1,484</u>
Total Nonoperating Revenues (Expenses)			
Capital Contributions:			
General Fund	-	7,995	7,995
Street Fund	-	16,766	16,766
Surface Water Management Fund	-	10,661	10,661
	<u>-</u>	<u>35,422</u>	<u>35,422</u>
Total Capital Contributions			
Change in Net Assets	(46,459)	39,972	(6,487)
Net Assets, January 1	<u>183,271</u>	<u>480,337</u>	<u>663,608</u>
Net Assets, December 31	<u>\$ 136,812</u>	<u>\$ 520,309</u>	<u>\$ 657,121</u>

City of Covington  
Internal Service Funds  
Combining Statement of Cash Flows  
For the Fiscal Year Ended December 31, 2010

	Unemployment Insurance	Equipment Replacement	Total
Cash Flows from Operating Activities:			
Cash Received from Quasi-External Transactions:			
Unemployment Contributions	\$ 38,295	\$ -	\$ 38,295
Vehicle Fuel and Maintenance Assessments	-	29,046	29,046
Vehicle Replacement Assessments	-	67,382	67,382
Total Cash Received from Quasi-External Transactions	<u>38,295</u>	<u>96,428</u>	<u>134,723</u>
Payments Made to Suppliers	-	(26,921)	(26,921)
Insurance Proceeds	-	-	-
Cash Paid for Unemployment Assessments	<u>(89,583)</u>	<u>-</u>	<u>(89,583)</u>
Net Cash Provided by Operating Activities	<u>(51,288)</u>	<u>69,507</u>	<u>18,219</u>
Cash Flows from Noncapital Financing Activities:			
Transfer From Other Funds	-	-	-
Net Cash Provided by Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Capital Activities:			
Proceeds from Disposition of Asset	-	2,236	2,236
Vehicle Replacement	-	(31,699)	(31,699)
Net Cash Received (Used) for Capital Activities	<u>-</u>	<u>(29,463)</u>	<u>(29,463)</u>
Cash Flows from Investing Activities:			
Proceeds from Sales and Maturities of Investments	49,824	74,808	124,632
Purchase of Investments	-	-	-
Interest Received	1,323	2,228	3,551
Net Cash Provided by Investing Activities	<u>51,147</u>	<u>77,036</u>	<u>128,183</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(141)	117,080	116,939
Cash and Cash Equivalents, January 1	<u>148,625</u>	<u>227,952</u>	<u>376,577</u>
Cash and Cash Equivalents, December 31	<u>\$ 148,484</u>	<u>\$ 345,032</u>	<u>\$ 493,516</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income	<u>\$ (46,909)</u>	<u>\$ 3,516</u>	<u>\$ (43,393)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Increase/(Decrease) in Accounts Payable	(2)	2,125	2,123
Increase/(Decrease) in Due to Other Governmental Entities	(4,377)	-	(4,377)
Depreciation	-	63,866	63,866
Total Adjustments to Net Cash Provided by Operating Activities	<u>(4,379)</u>	<u>65,991</u>	<u>61,612</u>
Net Cash Provided by Operating Activities	<u>\$ (51,288)</u>	<u>\$ 69,507</u>	<u>\$ 18,219</u>
Noncash Capital Activities			
Capital Contributions:			
General Fund	\$ -	\$ 7,995	\$ 7,995
Street Fund	-	16,766	16,766
Surface Water Management Fund	-	10,661	10,661
Total Contributed Capital	<u>\$ -</u>	<u>\$ 35,422</u>	<u>\$ 35,422</u>

**STATISTICAL**

# Statistical Section

This part of the City of Covington's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the government's overall financial health. The following are the categories of the various schedules that are included in this section:

The **Financial Trends** section has schedules that contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

The **Revenue Capacity** section has schedules that contain information to help the reader assess the government's most significant local revenue sources, property tax and sales tax.

The **Debt Capacity** section has schedules that present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

The **Demographic and Economic Information** section has schedules that offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

The **Operating Information** section has schedules that contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Table 1

**City of Covington**  
**Net Assets by Component**  
 Last Eight Fiscal Years (Note 1)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental Activities								
Invested in capital assets, net of related debt	\$ 36,451,269	\$ 32,632,260	\$ 30,075,857	\$ 15,320,656	\$ 16,130,426	\$ 10,907,638	\$ 9,861,925	\$ 4,442,749
Restricted	899,236	819,528	335,937	8,806,853	4,766,096	5,684,386	3,853,300	3,018,089
Unrestricted	8,410,744	7,640,005	7,945,250	5,784,137	1,268,451	2,390,358	2,265,944	3,911,021
Total Governmental Activities Net Assets	<u>\$ 45,761,249</u>	<u>\$ 41,091,793</u>	<u>\$ 38,357,044</u>	<u>\$ 29,911,646</u>	<u>\$ 22,164,973</u>	<u>\$ 18,982,382</u>	<u>\$ 15,981,169</u>	<u>\$ 11,371,859</u>

Note 1: Amounts presented from year of implementation of GASB-34 (2003) forward. All amounts are reported on the accrual basis.

Table 2

**City of Covington**  
**Changes in Net Assets**  
 Last Eight Fiscal Years (Note 1)

	2010	2009	2008	2007	2006	2005	2004	2003
<b>Expenses</b>								
Governmental Activities:								
General Government	\$ 3,350,824	\$ 3,162,014	\$ 2,873,695	\$ 2,203,276	\$ 2,316,049	\$ 1,849,808	\$ 2,190,143	\$ 1,877,930
Community Development	981,746	1,716,586	1,969,350	1,833,553	1,182,518	1,043,441	1,792,676	1,932,614
Public Safety	2,784,450	2,638,416	2,512,169	2,168,594	2,000,925	1,886,554	1,820,338	1,657,390
Culture and Recreation	1,210,301	1,201,680	945,176	770,396	1,194,095	1,455,678	783,835	755,099
Streets and Highways	1,890,955	2,547,725	1,812,661	2,034,403	1,711,212	1,159,623	583,488	429,797
Interest on Long-Term Debt	607,373	615,379	619,402	491,504	29,916	-	-	-
Total Governmental Activities Expenses	<u>10,825,649</u>	<u>11,881,800</u>	<u>10,732,453</u>	<u>9,501,726</u>	<u>8,434,715</u>	<u>7,395,104</u>	<u>7,170,480</u>	<u>6,652,830</u>
Total Primary Government Expenses	<u>\$ 10,825,649</u>	<u>\$ 11,881,800</u>	<u>\$ 10,732,453</u>	<u>\$ 9,501,726</u>	<u>\$ 8,434,715</u>	<u>\$ 7,395,104</u>	<u>\$ 7,170,480</u>	<u>\$ 6,652,830</u>
<b>Program Revenues</b>								
Governmental Activities:								
Charges for Services:								
General Government	\$ 190,859	\$ 223,530	\$ 184,387	\$ 152,367	\$ 120,834	\$ 82,755	\$ 98,064	\$ 125,150
Community Development	1,084,052	555,350	1,482,286	2,111,026	1,206,174	1,062,918	1,436,524	1,802,750
Public Safety	6,759	-	-	-	-	-	-	-
Culture and Recreation	501,461	461,341	460,354	348,832	589,093	639,282	55,518	200
Streets and Highways	1,558,598	1,418,986	1,246,132	1,104,765	993,177	837,630	753,814	698,864
Operating Grants and Contributions	540,429	609,253	578,957	510,222	448,938	726,560	486,401	699,865
Capital Grants and Contributions	<u>3,729,999</u>	<u>3,416,677</u>	<u>7,115,216</u>	<u>5,846,259</u>	<u>1,987,731</u>	<u>1,316,052</u>	<u>3,639,117</u>	<u>1,707,336</u>
Total Governmental Activities Program Revenues	<u>7,612,157</u>	<u>6,685,137</u>	<u>11,067,332</u>	<u>10,073,471</u>	<u>5,345,947</u>	<u>4,665,197</u>	<u>6,469,438</u>	<u>5,034,165</u>
Total Primary Government Program Revenues	<u>\$ 7,612,157</u>	<u>\$ 6,685,137</u>	<u>\$ 11,067,332</u>	<u>\$ 10,073,471</u>	<u>\$ 5,345,947</u>	<u>\$ 4,665,197</u>	<u>\$ 6,469,438</u>	<u>\$ 5,034,165</u>
<b>Net (Expense)/Revenue</b>								
Governmental Activities	<u>\$ (3,213,492)</u>	<u>\$ (5,196,663)</u>	<u>\$ 334,879</u>	<u>\$ 571,745</u>	<u>\$ (3,088,768)</u>	<u>\$ (2,729,907)</u>	<u>\$ (701,042)</u>	<u>\$ (1,618,665)</u>
Total Primary Government Net Expense	<u>\$ (3,213,492)</u>	<u>\$ (5,196,663)</u>	<u>\$ 334,879</u>	<u>\$ 571,745</u>	<u>\$ (3,088,768)</u>	<u>\$ (2,729,907)</u>	<u>\$ (701,042)</u>	<u>\$ (1,618,665)</u>
<b>General Revenues and Other Changes in Net Assets</b>								
Governmental Activities:								
Taxes								
Property Tax	\$ 1,958,320	\$ 2,067,945	\$ 1,971,567	\$ 1,942,431	\$ 1,864,214	\$ 1,649,330	\$ 1,523,582	\$ 1,439,287
Sales Tax	2,796,876	2,778,789	2,865,929	2,372,141	2,079,881	1,782,296	1,700,265	1,208,228
Utility Tax	1,778,346	1,857,471	1,601,734	-	-	-	-	-
Local Criminal Justice	337,172	342,588	396,749	428,029	389,306	335,156	325,377	275,667
Real Estate Excise Tax	442,206	303,668	424,548	1,029,449	986,741	1,183,361	1,112,265	968,250
Franchise Fee (Taxes)	197,813	189,337	182,289	169,772	154,128	143,806	128,146	110,775
City Assistance	-	-	-	78,977	82,296	66,900	100,300	268,000
MVET-Criminal Justice	47,686	49,330	44,614	44,003	41,216	34,762	30,665	31,998
Liquor Board Profits	140,224	119,454	116,182	126,115	110,200	107,737	107,639	90,559
Liquor Excise Tax	86,848	85,649	83,580	79,672	74,460	64,581	58,687	52,782
Other Intergovernmental not restricted to specific programs	-	-	-	-	-	9,749	24,798	37,548
Interest Income	31,041	84,278	347,958	641,261	464,875	274,206	137,216	93,385
Penalties	-	-	3,388	6,777	1,780	4,775	-	-
Donations	-	-	-	-	500	500	4,250	3,240
Miscellaneous	66,416	102,014	71,981	256,301	118,722	73,961	57,162	9,027
Loss on sale of capital asset	-	(49,111)	-	-	-	-	-	-
Total Governmental Activities	<u>7,882,948</u>	<u>7,931,412</u>	<u>8,110,519</u>	<u>7,174,928</u>	<u>6,368,319</u>	<u>5,731,120</u>	<u>5,310,352</u>	<u>4,588,746</u>
Total Primary Government	<u>\$ 7,882,948</u>	<u>\$ 7,931,412</u>	<u>\$ 8,110,519</u>	<u>\$ 7,174,928</u>	<u>\$ 6,368,319</u>	<u>\$ 5,731,120</u>	<u>\$ 5,310,352</u>	<u>\$ 4,588,746</u>
<b>Change in Net Assets</b>								
Governmental Activities	<u>\$ 4,669,456</u>	<u>\$ 2,734,749</u>	<u>\$ 8,445,398</u>	<u>\$ 7,746,673</u>	<u>\$ 3,279,551</u>	<u>\$ 3,001,213</u>	<u>\$ 4,609,310</u>	<u>\$ 2,970,081</u>
Total Primary Government	<u>\$ 4,669,456</u>	<u>\$ 2,734,749</u>	<u>\$ 8,445,398</u>	<u>\$ 7,746,673</u>	<u>\$ 3,279,551</u>	<u>\$ 3,001,213</u>	<u>\$ 4,609,310</u>	<u>\$ 2,970,081</u>

Note 1: Amounts presented from year of implementation of GASB-34 (2003) forward. All amounts are reported on the accrual basis.

Table 3

**City of Covington**  
**Governmental Activities Tax Revenues by Source**  
**Last Eight Fiscal Years (Note 1)**  
**(accrual basis of accounting)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Property Tax	\$1,958,320	\$2,067,945	\$1,971,567	\$1,942,431	\$1,864,214	\$1,649,330	\$1,523,582	\$1,439,287
Sales Tax	2,796,876	2,778,789	2,865,929	2,372,141	2,079,881	1,782,296	1,700,265	1,208,228
Utility Tax	1,778,346	1,857,471	1,601,734	-	-	-	-	-
Local Criminal Justice	337,172	342,588	396,749	428,029	389,306	335,156	325,377	275,667
Real Estate Excise Tax	442,206	303,668	424,548	1,029,449	986,741	1,183,361	1,112,265	968,250
All Others	<u>472,571</u>	<u>443,770</u>	<u>426,665</u>	<u>419,562</u>	<u>380,004</u>	<u>350,886</u>	<u>325,137</u>	<u>286,114</u>
<b>Total Taxes</b>	<u>\$7,785,491</u>	<u>\$7,794,231</u>	<u>\$7,687,192</u>	<u>\$6,191,612</u>	<u>\$5,700,146</u>	<u>\$5,301,029</u>	<u>\$4,986,626</u>	<u>\$4,177,546</u>

Note 1: Amounts presented from year of implementation of GASB-34 (2003) forward.

Table 4

**City of Covington**  
**Taxable Sales by Category**  
**Last Ten Fiscal Years**

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005 (Note 1)</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Retail	\$ 2,048,892	\$ 2,002,369	\$ 1,561,998	\$ 1,384,995	\$ 1,274,762	\$ 1,070,292	\$ 819,982	\$ 569,669	\$ 534,497	\$ 548,286
Contracting	119,897	180,435	680,289	397,439	301,466	247,070	473,107	305,166	262,380	181,335
Food Services	317,125	308,971	290,862	275,171	231,207	216,073	161,783	136,550	125,002	124,053
Services - Other	124,960	121,771	100,224	86,171	86,931	70,331	74,347	66,545	62,036	57,393
Transportation/Communication/Utilities	72,068	70,688	86,664	90,871	60,242	65,940	53,304	47,481	37,043	31,827
Wholesale	42,521	40,946	67,002	53,282	45,688	46,400	57,405	39,367	39,212	40,556
Finance/Insurance/Real Estate	26,855	29,919	44,693	54,714	52,767	46,737	30,188	9,597	7,253	5,998
Other	44,558	23,690	34,199	29,498	26,818	19,453	30,149	33,853	36,675	26,214
<b>Total Sales Tax</b>	<b>\$ 2,796,876</b>	<b>\$ 2,778,789</b>	<b>\$ 2,865,931</b>	<b>\$ 2,372,141</b>	<b>\$ 2,079,881</b>	<b>\$ 1,782,296</b>	<b>\$ 1,700,265</b>	<b>\$ 1,208,228</b>	<b>\$ 1,104,098</b>	<b>\$ 1,015,662</b>

Note 1: Effective 2005, the Department of Revenue began reporting by NAICS Code instead of by SIC Code. Previous years were not adjusted.

Source: Washington State Department of Revenue

Table 5

**City of Covington**  
**Principal Sales Tax Payers**  
**December 31, 2010** (Note 1)

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Rank</u>
Costco Wholesale Corp.	Retail	1
Wal-Mart Stores, Inc.	Retail	2
Fred Meyer Stores, Inc.	Retail	3
Home Depot USA, Inc.	Retail	4
Kohl's Department Stores, Inc.	Retail	5
Safeway, Inc.	Retail	6
Petco Animal Supplies Stores, Inc.	Retail	7
Les Schwab Tire Centers of Washington	Retail	8
The Office Club, Inc.	Retail	9
Bowen Scarff Ford Sales, Inc.	Car Dealership	10

Note 1: Data for 2001 was unavailable.

Sources:

Washington State Department of Revenue

Table 6

**City of Covington**  
**Sales Tax Rates Direct and Overlapping Governments**  
**Last Ten Fiscal Years**

	<b>2010</b>	<b>2009</b>	<b>2008</b> <small>(Note 4)</small>	<b>2007</b> <small>(Note 3)</small>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b> <small>(Note 1)</small>
<b>Local Rate:</b>										
City of Covington	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%
King County	0.075%	0.075%	0.075%	0.075%	0.075%	0.075%	0.075%	0.075%	0.075%	0.075%
King County Mental Health	0.100%	0.100%	0.100%							
Optional Tax - City of Covington	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%
Transit - King County (METRO)	0.900%	0.900%	0.900%	0.900%	0.800%	0.800%	0.800%	0.800%	0.800%	0.800%
Criminal Justice Tax (0.10% Total) <small>(Note 2)</small>										
10% King County	0.010%	0.010%	0.010%	0.010%	0.010%	0.010%	0.010%	0.010%	0.010%	0.010%
90% Split based upon Population										
City of Covington (estimate)	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%
King County (estimate)	0.089%	0.089%	0.089%	0.089%	0.089%	0.089%	0.089%	0.089%	0.089%	0.089%
Total Criminal Justice Tax	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>
<b>Total Local Rate</b>	<b><u>2.100%</u></b>	<b><u>2.100%</u></b>	<b><u>2.100%</u></b>	<b><u>2.000%</u></b>	<b><u>1.900%</u></b>	<b><u>1.900%</u></b>	<b><u>1.900%</u></b>	<b><u>1.900%</u></b>	<b><u>1.900%</u></b>	<b><u>1.900%</u></b>
<b>City of Covington Share</b>										
City of Covington Regular Rate	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%	0.425%
City of Covington Optional Rate	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%	0.500%
City of Covington Criminal Justice (estimate)	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%
<b>Total City of Covington</b>	<b><u>0.926%</u></b>	<b><u>0.926%</u></b>	<b><u>0.926%</u></b>	<b><u>0.926%</u></b>	<b><u>0.926%</u></b>	<b><u>0.926%</u></b>	<b><u>0.926%</u></b>	<b><u>0.926%</u></b>	<b><u>0.926%</u></b>	<b><u>0.926%</u></b>
<b>King County Share</b>	1.074%	1.074%	1.074%	1.074%	0.974%	0.974%	0.974%	0.974%	0.974%	0.974%
<b>State of Washington</b>	<b><u>6.500%</u></b>	<b><u>6.500%</u></b>	<b><u>6.500%</u></b>	<b><u>6.500%</u></b>	<b><u>6.500%</u></b>	<b><u>6.500%</u></b>	<b><u>6.500%</u></b>	<b><u>6.500%</u></b>	<b><u>6.500%</u></b>	<b><u>6.500%</u></b>
<b>Total Sales Tax Rate</b>	<b><u>8.600%</u></b>	<b><u>8.600%</u></b>	<b><u>8.600%</u></b>	<b><u>8.500%</u></b>	<b><u>8.400%</u></b>	<b><u>8.400%</u></b>	<b><u>8.400%</u></b>	<b><u>8.400%</u></b>	<b><u>8.400%</u></b>	<b><u>8.400%</u></b>

Note 1: Effective 4/1/01, King County Metro increased transit portion of sales tax by two tenths of a percent.

Note 2: Criminal justice tax is one tenth of one percent. Ten percent of this is paid directly to King County, and the remaining 90% is divided between cities and to King County based upon the city's population. Amount reflected is an estimate of Covington's population as a percentage of King County's population to the remaining 90% of the tax.

Note 3: Effective 4/1/07, King County Metro increased transit portion of sales tax by one tenth of a percent.

Note 4: Effective 4/1/08, King County allocated an additional tenth of a percent to mental health services.

SOURCE:

King County Population Data - King County CAFR  
 Tax rates - Washington State Department of Revenue

Table 7

**City of Covington**  
**Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
General Fund										
Reserved	\$ 65,411	\$ 74,391	\$ 60,372	\$ 4,000	\$ 33,944	\$ 33,141	\$ 32,547	\$ 28,699	\$ 6,813	\$ 13,207
Unreserved	<u>2,286,179</u>	<u>2,226,147</u>	<u>2,150,676</u>	<u>1,300,941</u>	<u>884,386</u>	<u>2,064,632</u>	<u>1,962,157</u>	<u>2,448,592</u>	<u>2,901,287</u>	<u>2,796,755</u>
Total General Fund	<u>\$2,351,590</u>	<u>\$2,300,538</u>	<u>\$2,211,048</u>	<u>\$ 1,304,941</u>	<u>\$ 918,330</u>	<u>\$2,097,773</u>	<u>\$1,994,704</u>	<u>\$2,477,291</u>	<u>\$2,908,100</u>	<u>\$2,809,962</u>
All Other Governmental Funds										
Reserved	\$ 67,103	\$ 73,052	\$ 78,464	\$ 46,010	\$ 46,010	\$ 46,010	\$ 46,010	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special Revenue Funds	4,875,354	4,143,601	4,714,942	3,564,693	1,737,896	873,996	928,715	855,867	1,138,156	1,185,930
Debt Service Funds	6,158	6,015	5,656	4,354	-	-	-	-	-	-
Capital Projects Funds	<u>1,090,200</u>	<u>1,057,613</u>	<u>750,860</u>	<u>9,382,875</u>	<u>4,608,286</u>	<u>5,584,960</u>	<u>3,752,620</u>	<u>1,845,244</u>	<u>2,398,906</u>	<u>2,580,809</u>
Total All Other Governmental Funds	<u>\$6,038,815</u>	<u>\$5,280,281</u>	<u>\$5,549,922</u>	<u>\$12,997,932</u>	<u>\$6,392,192</u>	<u>\$6,504,966</u>	<u>\$4,727,345</u>	<u>\$2,701,111</u>	<u>\$3,537,062</u>	<u>\$3,766,739</u>

Table 8

**City of Covington**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>Revenues</b>										
Taxes	\$ 7,331,450	\$ 7,328,863	\$ 7,252,738	\$ 5,771,775	\$ 5,314,051	\$ 4,976,299	\$ 4,652,222	\$ 3,851,628	\$ 3,392,842	\$ 3,190,555
Licenses and Permits	646,497	502,276	814,074	1,225,381	663,967	602,659	917,827	1,156,590	669,756	635,831
Intergovernmental	3,065,275	1,492,203	1,999,078	3,769,373	2,271,065	1,542,478	2,160,179	1,792,574	1,980,796	2,780,933
Charges for Goods and Services	2,996,856	3,774,421	3,289,049	4,548,746	2,340,805	2,426,539	2,486,377	2,233,023	2,112,084	1,029,889
Fines and Forfeitures	128,214	138,291	112,069	101,248	101,895	120,965	85,162	112,607	87,610	95,560
Special Assessment	52,122	43,869	74,271	103,285	20,973	30,673	1,171,675	-	-	-
Interest Income	30,375	75,045	459,741	641,261	464,875	274,206	137,216	93,385	162,310	368,688
Penalties	-	-	3,388	6,777	1,780	4,775	-	-	-	-
Interfund Services Payment	588,194	866,000	1,167,185	392,360	213,000	-	-	-	-	-
Miscellaneous	208,795	234,611	622,516	134,841	450,742	162,541	84,715	13,198	8,945	15,949
<b>Total Revenues</b>	<b>15,047,778</b>	<b>14,455,579</b>	<b>15,794,109</b>	<b>16,695,047</b>	<b>11,843,153</b>	<b>10,141,135</b>	<b>11,695,373</b>	<b>9,253,005</b>	<b>8,414,343</b>	<b>8,117,405</b>
<b>Expenditures</b>										
<b>Current</b>										
General Government	3,259,194	3,101,181	3,015,886	2,099,809	2,292,506	1,809,877	2,149,388	1,701,637	1,365,490	1,287,870
Community Development	1,042,123	2,181,706	2,434,387	2,005,329	1,420,422	1,017,855	1,790,147	1,899,755	1,170,651	1,221,517
Public Safety	2,784,450	2,638,016	2,543,686	2,166,995	1,999,326	1,884,955	1,819,139	1,642,344	1,617,308	1,639,318
Culture and Recreation	1,202,554	1,151,642	932,694	688,198	1,159,896	1,449,981	571,785	419,790	-	-
Streets and Highways	2,134,312	2,420,338	2,061,538	1,957,620	1,619,822	861,857	716,496	701,326	2,888,125	2,287,059
<b>Capital Outlay</b>										
General Government	5,973	-	21,451	12,446	66,599	-	48,179	13,169	482,309	75,909
Community Development	-	17	-	-	14,807	5,343	55,303	25,067	-	-
Public Safety	-	-	-	-	-	-	7,995	-	-	-
Culture and Recreation	126,374	357,962	750,243	195,986	181,565	458,226	938,498	1,887,430	-	-
Streets and Highways	2,603,995	1,983,434	10,176,804	14,699,562	5,133,615	969,598	3,253,567	2,444,864	986,807	1,044,984
<b>Debt service</b>										
Principal	466,479	272,728	398,187	169,855	70,358	-	-	-	1,304	2,464
Interest	613,308	617,106	619,718	250,598	25,869	26,132	20,836	41,347	33,888	46,566
Bond Issuance Cost	-	-	12,080	92,646	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>14,238,762</b>	<b>14,724,130</b>	<b>22,966,674</b>	<b>24,339,044</b>	<b>13,984,785</b>	<b>8,483,824</b>	<b>11,371,333</b>	<b>10,776,729</b>	<b>8,545,882</b>	<b>7,605,687</b>
Excess of Revenues over (under) Expenditures	809,016	(268,551)	(7,172,565)	(7,643,997)	(2,141,632)	1,657,311	324,040	(1,523,724)	(131,539)	511,718
<b>Other Financing Sources (Uses)</b>										
Transfers In	1,690,062	2,707,653	2,594,956	1,564,955	1,741,506	2,204,817	2,537,050	1,892,971	1,245,103	483,683
Transfers Out	(1,690,062)	(2,707,653)	(2,594,956)	(1,564,955)	(1,741,506)	(2,204,817)	(2,537,050)	(1,892,971)	(1,245,103)	(483,683)
General Obligation Bond Proceeds	-	-	308,068	12,505,000	-	-	-	-	-	-
Premium on General Obligation Bonds	-	-	-	52,655	-	-	-	-	-	-
Special Assessment Bond Proceeds	-	-	-	-	-	-	460,100	-	-	-
Intergovernmental Loan Proceeds	-	-	189,275	1,892,750	946,375	-	757,100	-	-	-
Proceeds from Sale of Capital Asset	-	85,669	130,942	125,015	-	223,379	2,407	256,964	-	-
Compensation from Loss of Asset	570	2,731	2,377	60,928	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>570</b>	<b>88,400</b>	<b>630,662</b>	<b>14,636,348</b>	<b>946,375</b>	<b>223,379</b>	<b>1,219,607</b>	<b>256,964</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>\$ 809,586</b>	<b>\$ (180,151)</b>	<b>\$ (6,541,903)</b>	<b>\$ 6,992,351</b>	<b>\$ (1,195,257)</b>	<b>\$ 1,880,690</b>	<b>\$ 1,543,647</b>	<b>\$ (1,266,760)</b>	<b>\$ (131,539)</b>	<b>\$ 511,718</b>
Debt service as a percentage of noncapital expenditures	9.39%	7.19%	8.47%	4.46%	1.12%	0.37%	0.29%	0.65%	0.50%	0.76%

Table 9

**City of Covington**  
**General Governmental Tax Revenues by Source**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Property Tax	1,976,819	2,046,294	1,963,753	1,942,156	1,858,123	\$1,675,486	\$1,514,315	\$ 1,399,483	\$1,335,694	\$1,251,990
Sales Tax	2,796,876	2,778,789	2,865,929	2,372,141	2,079,881	1,782,296	1,700,265	1,208,228	1,091,888	992,953
Utility Tax	1,778,346	1,857,471	1,601,734	-	-	-	-	-	-	-
Local Criminal Justice	337,172	342,588	396,749	428,029	389,306	335,156	325,377	275,667	264,554	274,678
Real Estate Excise Tax	442,206	303,668	424,548	1,029,449	986,741	1,183,361	1,112,265	968,250	700,706	670,934
All Others	31	53	25	-	-	350,886	325,137	286,114	250,334	245,827
<b>Total Taxes</b>	<b><u>\$7,331,450</u></b>	<b><u>\$7,328,863</u></b>	<b><u>\$7,252,738</u></b>	<b><u>\$5,771,775</u></b>	<b><u>\$5,314,051</u></b>	<b><u>\$5,327,185</u></b>	<b><u>\$4,977,359</u></b>	<b><u>\$ 4,137,742</u></b>	<b><u>\$3,643,176</u></b>	<b><u>\$3,436,382</u></b>

Table 10

**City of Covington**  
**Assessed and Estimated Value of Taxable Property (Note 1)**  
**Last Ten Fiscal Years**

**Assessed and Estimated Actual Value**

Fiscal Year	Real Property				Personal Property			Total Assessed Value	Total Direct Tax Rate	New Construction (Note 3)
	Locally Assessed Land	Locally Assessed Improvements	State Assessed Public Utility	Omitted Assessments (Note 2)	Locally Assessed	State Assessed Public Utility	Omitted Assessments (Note 2)			
2001	\$ 273,190,930	\$ 543,315,497	\$ 155,292	\$ 230,000	\$20,315,584	\$ 11,901,824	\$ -	\$ 849,109,127	\$ 1.4903	\$ 7,458,286
2002	338,223,230	575,527,447	157,377	-	23,305,567	14,517,265	3,440	951,734,326	1.4077	39,590,705
2003	368,199,830	665,361,397	157,203	-	25,425,969	13,566,139	-	1,072,710,538	1.3232	55,285,114
2004	403,884,330	750,881,697	166,158	241,000	23,938,941	12,632,980	259,666	1,192,004,772	1.2837	81,783,532
2005	431,731,530	865,500,097	168,276	224,000	20,753,923	13,636,097	-	1,332,013,923	1.2466	98,899,473
2006	492,723,430	959,956,197	161,743	325,000	22,262,261	14,301,377	13,174	1,489,743,182	1.2045	53,849,875
2007	554,745,330	1,066,275,211	163,924	-	27,525,295	13,324,094	3,808,485	1,665,842,339	1.1522	28,278,992
2008	640,650,490	1,197,306,300	159,219	-	32,183,863	15,773,682	-	1,886,073,554	1.0481	36,727,701
2009	706,781,218	1,363,213,711	521,551	-	33,644,893	14,943,721	-	2,119,105,094	0.9810	63,613,630
2010	655,790,432	1,109,425,992	587,076	21,000	31,776,955	25,120,957	151,556	1,822,873,968	1.1529	28,133,198

Note 1: Real, personal, and state public service property have been assessed at 100% of the estimated value.

Note 2: An omitted assessment is property value that should have been included on a prior's roll but will be included in the current roll. Omits are assessed and taxed at the rate in effect for the year omitted.

Note 3: New construction is already included in other values shown. This column is provided for information only.

Sources:

King County Assessor

Table 11

**City of Covington**  
**Property Tax Rated Direct and Overlapping Governments**  
**Per One Thousand of Assessed Valuation**  
**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>City of Covington</u>	<u>School District</u>	<u>King County</u>	<u>King County Fire District</u>	<u>Washington State</u>	<u>Port of Seattle</u>	<u>Other</u>	<u>Total</u>
2001	\$ 1.49034	\$ 5.36476	\$ 1.55218	\$ 1.44370	\$ 3.14502	\$ 0.19029	\$ 0.90234	\$14.08863
2002	1.40772	4.86509	1.44949	1.37062	2.98946	0.18956	0.87224	13.14418
2003	1.32315	4.73667	1.34948	1.33808	2.89680	0.25895	0.87965	12.78278
2004	1.28369	4.71717	1.43146	1.29833	2.75678	0.25402	0.86570	12.60715
2005	1.24664	4.79809	1.38229	1.50000	2.68951	0.25321	0.85476	12.72450
2006	1.20452	4.59334	1.32869	1.42180	2.49787	0.23330	0.81306	12.09258
2007	1.15224	4.17559	1.24284	1.35107	2.32535	0.23158	1.26300	11.74167
2008	1.04814	4.39336	1.20770	1.50000	2.13233	0.22359	1.41690	11.92202
2009	0.98104	4.06952	1.09772	1.50000	1.96268	0.19700	1.30422	11.11218
2010	1.15290	4.80855	1.28499	1.50000	2.22253	0.21597	1.42678	12.61172

Sources:

King County Assessor

### 2010 Property Tax Allocation by Taxing Districts

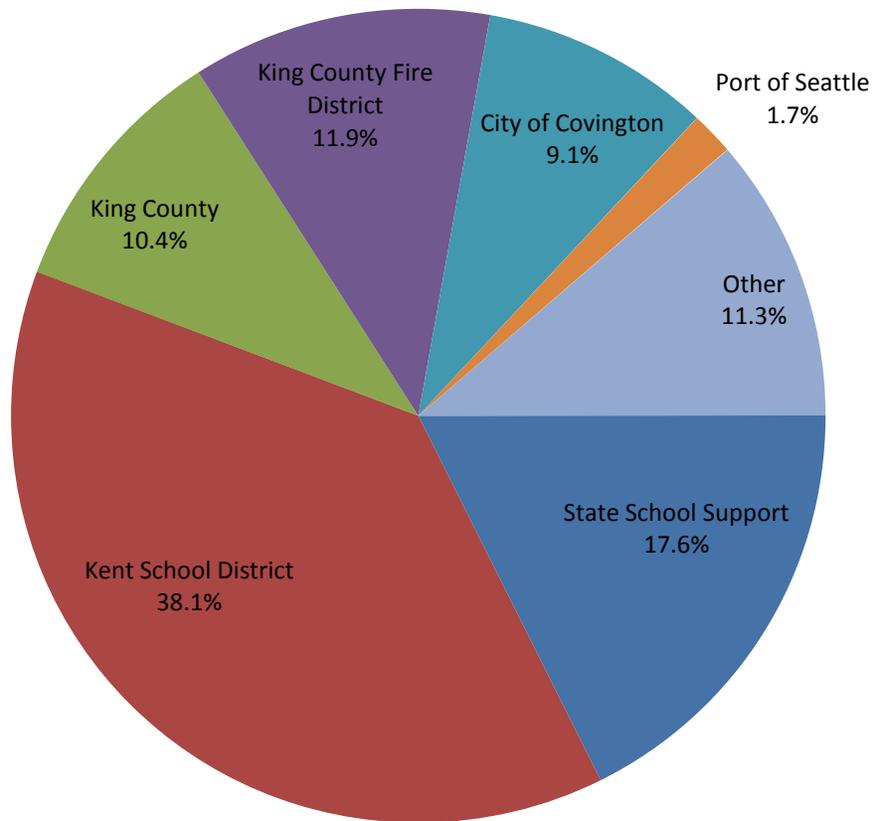


Table 12

**City of Covington**  
**Principal Property Tax Payers**  
**Current Year and Nine Years Ago (Note A,B)**

		<u>2010</u>			<u>2001</u>		
Rank	Taxpayer	Type of Business/Property	2010 Assessed Value	Percentage of	Rank	2001 Assessed Value	Percentage of
				Total Assessed Value (A)			Total Assessed Value (A)
1	TRC MM, LLC	Shopping Center	\$ 27,349,000	1.50%	(B)	\$ -	0.00%
2	Covington Legacy - BSP	Shopping Center	25,754,700	1.41%	(B)	-	0.00%
3	Multicare Health Systems	Healthcare	25,329,410	1.39%	1	21,904,993	2.58%
4	Covington Apartments, LLC	Apartments	19,530,000	1.07%	(B)	-	0.00%
5	Fred Meyer Inc.	Department Store	19,223,300	1.05%	3	13,455,400	1.58%
6	Costco Wholesale Corp	Commercial	19,208,800	1.05%	(B)	-	0.00%
7	Covington Commercial II, LLC	Shopping Center	16,657,000	0.91%	(B)	-	0.00%
8	Wal-Mart Stores, Inc.	Department Store	14,609,800	0.80%	(B)	-	0.00%
9	Covington Retail Assoc, LLC	Shopping Center	12,911,700	0.71%	(B)	-	0.00%
10	Covington Shopping Center	Commercial	10,782,100	0.59%	(B)	-	0.00%
(B)	GMS Realty, Inc.	Shopping Center	(B)	0.00%	2	16,066,800	1.89%
(B)	Norma J. Somers	Shopping Center	(B)	0.00%	4	5,033,000	0.59%
(B)	Lakeside Industries	Gravel Pit Operations	(B)	0.00%	5	3,968,700	0.47%
(B)	Roundup Company	Department Store	(B)	0.00%	6	3,425,323	0.40%
(B)	Gerald L. & Mary Ann Honeysett	Mobile Home Park	(B)	0.00%	7	2,616,000	0.31%
(B)	Rodger C. & Stella Scott	Public Storage Facility	(B)	0.00%	8	2,064,000	0.24%
(B)	Robert J. Knutsen	Land	(B)	0.00%	9	1,738,500	0.20%
(B)	Larry Burr	Land	(B)	0.00%	10	1,643,400	0.19%
Total Assessed Value of 10 Largest Taxpayers			<u>\$ 191,355,810</u>	<u>10.48%</u>		<u>\$ 71,916,116</u>	<u>8.45%</u>

(A) Total 2010 assessed valuation, in millions, is \$1,822,873,968, 2001 assessed valuation, \$849,109,127.

(B) Taxpayer was not a principal taxpayer in this period

Sources:

King County Assessor

Table 13

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

Fiscal Year	Total Tax Levy	Collected within the Fiscal Year of the Levy		Collected in Subsequent Years	Total Collections to Date	
		Amount	Percentage		Amount	Taxes
2001	\$1,260,218	\$ 1,228,425	97.48%	\$ 31,741	\$ 1,260,166	100.00%
2002	1,335,719	1,303,902	97.62%	31,767	1,335,669	100.00%
2003	1,415,345	1,369,906	96.79%	45,383	1,415,289	100.00%
2004	1,526,184	1,436,786	94.14%	89,342	1,526,128	100.00%
2005	1,656,389	1,625,344	98.13%	30,988	1,656,332	100.00%
2006	1,804,737	1,797,407	99.59%	7,221	1,804,628	99.99%
2007	1,912,859	1,873,816	97.96%	37,993	1,911,809	99.95%
2008	1,976,869	1,935,004	97.88%	36,820	1,971,824	99.74%
2009	2,070,064	2,014,728	97.33%	40,445	2,055,173	99.28%
2010	2,093,086	2,008,300	95.95%	-	2,008,300	95.95%

Sources:

King County Assessor

Table 14

**City of Covington**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

<u>Governmental Activities</u>						
<u>Fiscal Year</u>	<u>General</u> <u>Obligation</u> <u>Bonds</u>	<u>Special</u> <u>Assessment</u> <u>Bonds</u>	<u>Capital</u> <u>Leases</u>	<u>Total</u> <u>Primary</u> <u>Government</u>	<u>Percentage of</u> <u>Personal</u> <u>Income (Note 1)</u>	<u>Per Capita</u> <u>(Note 1)</u>
2001	\$ -	\$ -	\$ 1,304	\$ 1,304	0.0002%	\$ 0.09
2002	-	-	-	-	0.0000%	-
2003	-	-	-	-	0.0000%	-
2004	-	460,100	-	460,100	0.0615%	30.29
2005	-	460,100	-	460,100	0.0562%	27.09
2006	-	431,587	-	431,587	0.0475%	25.03
2007	12,555,148	352,160	-	12,907,308	1.3011%	750.86
2008	12,822,064	176,758	-	12,998,822	1.2879%	748.78
2009	12,603,168	149,557	-	12,752,725	1.2784%	727.48
2010	12,093,615	114,236	-	12,207,851	*	*

Note 1: See the Schedule of Demographic and Economic Statistics on page 104 for personal income and population data.

\* Data not available at time of publication

Table 15

**City of Covington**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>General</b>	<b>Less: Amounts</b>	<b>Percentage of</b>		<b>Per Capita</b>
	<b>Obligation</b>	<b>Available in Debt</b>	<b>Estimated Actual</b>	<b>Taxable Value of</b>	
	<b>Bonds</b>	<b>Service Fund</b>	<b>Total</b>	<b>Property (Note1)</b>	<b>(Note 2)</b>
2001	\$ -	\$ -	\$ -	0.00%	\$ -
2002	-	-	-	0.00%	-
2003	-	-	-	0.00%	-
2004	-	-	-	0.00%	-
2005	-	-	-	0.00%	-
2006	-	-	-	0.00%	-
2007	12,555,148	-	12,555,148	0.75%	730.38
2008	12,822,064	-	12,822,064	0.68%	738.60
2009	12,603,168	-	12,603,168	0.59%	718.95
2010	12,093,615	-	12,093,615	0.66%	685.58

Note 1: See the Schedule of Assessed and Estimated Value of Taxable Property on page 94 for property value data.

Note 2: See the Schedule of Demographic and Economic Statistics on page 104 for population data.

Table 16

**City of Covington**  
**Computation of Direct and Overlapping Debt**  
**December 31, 2010**

Jurisdiction	Net General Obligation Debt Outstanding (Note 1)	Percentage Applicable to Covington (Note 2)	Estimated Amount Applicable to Covington
<b>Direct:</b>			
City of Covington	\$ 12,603,168	100.00%	\$ 12,603,168
<b>Overlapping:</b>			
King County	1,140,426,000	0.52%	5,930,215
King County Library	131,901,411	0.83%	1,094,782
Port of Seattle	335,500,000	0.52%	1,744,600
Hospital District #1	37,255,000	4.87%	1,814,319
Kent Regional Fire Authority #62	-	11.09%	-
Tahoma School District #409	28,070,418	0.00%	1,123
Kent School District #415	<u>205,939,464</u>	9.84%	<u>20,264,443</u>
<b>Total Overlapping Debt</b>	<u>1,879,092,293</u>		<u>30,849,482</u>
<b>Total Direct and Overlapping Debt</b>	<u>\$ 1,891,695,461</u>		<u>\$ 43,452,650</u>

Note 1: Total general obligation bonds outstanding on December 31, 2009 exclusive of refunded bonds. Source: King County

Note 2: Determined by ratio of 2010 assessed valuation of property subject to taxation in overlapping unit to valuation of property subject to taxation in reporting unit.

Table 17

**City of Covington**  
**Legal Debt Margin Calculation**  
**December 31, 2010**

		<b>\$ 1,822,873,968</b>
		Remaining Debt Capacity
1	2.5% general purposes limit is allocated between:	\$ 45,571,849
2	Up to 1.5% debt <b>without</b> a vote (councilmanic)	\$ 27,343,110
3	Less: outstanding debt	\$ 14,469,375
4	Less: excess of debt with vote	\$ -
5	Add: available assets	\$ 1,905,072
6	<b>Equals: remaining debt capacity without vote</b>	<b>\$ 14,778,807</b>
7	1% general purposes debt <b>with</b> a vote	\$ 18,228,740
8	Less: outstanding debt	\$ -
9	Less: contracts payable	\$ -
10	Add: available assets	\$ -
11	<b>Equals: remaining debt capacity with a vote</b>	<b>\$ 18,228,740</b>
12	2.5% <b>utility</b> purpose limit, voted	\$ 45,571,849
13	Less: outstanding debt	\$ -
14	Less: contracts payable	\$ -
15	Add: available assets	\$ -
16	<b>Equals: remaining debt capacity - utility purpose, voted</b>	<b>\$ 45,571,849</b>
17	2.5% <b>open space, park and capital facilities</b> , voted	\$ 45,571,849
18	Less: outstanding debt	\$ -
19	Less: contracts payable	\$ -
20	Add: available assets	\$ -
21	<b>Equals: remaining debt capacity - open space, park and capital facilities, voted</b>	<b>\$ 45,571,849</b>

## Sources:

Materials prepared for State Schedule 10 - Summary of Limitation of Indebtedness for year ending 12/31/10  
 In accordance with State of Washington RCW 39.36.60, does not include DCTED Public Work Trust Fund Loans.

Table 18

**City of Covington**  
**Pledged-Revenue Coverage**  
**Last Ten Fiscal Years**

Fiscal Year	Special Assessment Bonds				Coverage
	Special Assessment	Debt Service			
	Collections	Principal	Interest		
2001	\$ -	\$ -	\$ -	\$ -	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
2005	61,585	-	21,758	-	2.83
2006	51,228	30,509	22,085	-	2.32
2007	116,609	77,431	20,620	-	5.66
2008	79,380	175,402	16,904	-	4.70
2009	43,869	27,201	8,484	-	5.17
2010	52,122	35,321	7,179	-	7.26

Details regarding the government's outstanding debt can be found in the Notes to the Financial Statements.

Table 19

**City of Covington**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**

Fiscal Year	Population	Per Capita		Median Age	School Enrollment (Note 1)	Unemployment Rate (Note 2)
		Personal Income	Personal Income			
2001	\$ 13,840	\$43,841	\$ 606,759,440	32	26,670	6.2%
2002	14,395	44,313	637,885,635	32	26,694	7.3%
2003	14,850	44,482	660,557,700	32	26,860	7.4%
2004	15,190	49,286	748,654,340	32	27,293	6.3%
2005	16,985	48,216	818,948,760	32	27,269	5.5%
2006	17,240	52,655	907,772,200	32	26,996	5.0%
2007	17,190	57,710	992,034,900	32	27,462	5.0%
2008	17,360	58,141	1,009,327,760	32	26,764	4.3%
2009	17,530	56,904	997,527,120	32	27,444	8.1%
2010	17,640	*	*	34	*	8.8%

Note 1: Office of WA Superintendent of Public Instruction

Note 2: U.S. Department of Labor

\* Data not available at time of publication

Sources:

Population, Median Age, and Unemployment Rates were provided by the US Census Bureau.

Per Capita Personal Income data was provided by US Bureau of Economic Analysis. Estimates are for King County, in which Covington is located. Covington data is not available.

Personal income estimates are based on multiplying the population of Covington by the per capita personal income estimate for King County.

School Enrollment was provided by the Kent School District. Estimates are for the Kent School District, in which Covington is located. Covington data is not available.

Table 20

**City of Covington**  
**Principal Employers**  
**December 31, 2010** (Note 1, 2, 3)

<u>Employer</u>	<u>Type of Business</u>	<u>Rank</u>	<u>No. of Employees</u>
Kent School District #415	Education	1	613
Multicare Health Systems	Health Care	2	300
Wal-Mart Stores, Inc.	Retail Warehouse	3	290
Fred Meyer	Retail/Specialty	4	240
Costco	Retail Warehouse	5	200
Home Depot	Retail	6	125
Safeway	Retail/Grocery	7	90
Applebee's	Restaurant	8	70
King County Library System	Public Library	9	66
Lakeridge Paving Co.	Retail	10	63

Note 1: Total employment in the City was not available and therefore, percentages cannot be calculated

Note 2: Data for 2001 was unavailable

Note 3: Information current through December 31, 2008

Table 21

**City of Covington**  
**Full-Time Equivalent City Government Employees by Function**  
**Last Ten Fiscal Years**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005 (Note 2)</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Function</b>										
General Government	13	13	13	12	12	14	9	8	8	8
Community Development	6	11	16	15	15	4	15	12	7	6
Public Safety (Note 1)	-	-	-	-	-	-	-	-	-	-
Highways and Streets	12	14	14	11	11	5	5	5	4	4
Culture and Recreation	<u>10</u>	<u>9</u>	<u>9</u>	<u>8</u>	<u>8</u>	<u>13</u>	<u>4</u>	<u>4</u>	<u>1</u>	<u>-</u>
Total	<u>41</u>	<u>47</u>	<u>52</u>	<u>46</u>	<u>46</u>	<u>36</u>	<u>33</u>	<u>29</u>	<u>20</u>	<u>18</u>

Sources:

City of Covington Finance Department

Note 1: The City contracts with King County for police officers.

Note 2: In 2005, the City began operating an Aquatic Center and administering athletics programs. This increased our Culture and Recreation staff.

Table 22

**City of Covington**  
**Operating Indicators by Function**  
**Last Ten Fiscal Years**

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Function</b>										
City Manager (Note 1)										
Citizen Action Requests	275	281	268	347	401	N/A	N/A	N/A	N/A	N/A
Community Room Rentals	160	295	283	230	232	N/A	N/A	N/A	N/A	N/A
Contacts by Citizens (Phone and Walk-in)	11,279	13,088	15,116	12,984	12,014	N/A	N/A	N/A	N/A	N/A
Finance (Note 1)										
AP Checks Processed	1,794	1,758	1,758	1,600	1,829	1,689	1,513	1,397	N/A	N/A
AP Invoices Processed	2,931	2,994	2,994	2,638	2,982	2,339	2,290	2,171	N/A	N/A
AP \$ (in Millions)	10	20	20	17	10	6	8	8	N/A	N/A
AR Invoices/Statements Processed	753	751	751	902	1,020	826	624	493	N/A	N/A
Payroll Checks Processed	1,976	2,201	2,201	1,950	1,900	1,787	1,211	1,012	N/A	N/A
City Clerk (Note 1)										
Public Disclosure Requests	88	97	255	288	255	205	N/A	N/A	N/A	N/A
Covington Connection E-mails Received	116	178	186	243	219	194	N/A	N/A	N/A	N/A
Press Releases	57	40	71	62	47	59	N/A	N/A	N/A	N/A
Contracts/Agreements	45	63	66	35	93	64	N/A	N/A	N/A	N/A
Ordinances/Resolutions Passed	49	38	49	65	130	113	N/A	N/A	N/A	N/A
Community Development										
No. of Permits Issued	115	131	209	225	135	207	387	455	282	293
Estimated Value (in Millions)	15	8	49	89	25	36	78	93	69	53
Public Safety (Note 2)										
No. of Calls for Service	4,196	4,135	4,026	3,837	4,098	3,982	3,720	3,429	3,429	3,398
Reported Crimes	1,638	1,311	1,631	1,591	1,385	1,338	1,292	1,246	1,137	1,184
Traffic Citations	1,170	1,470	1,451	1,795	1,956	1,776	970	1,252	1,158	1,558
No. of Arrests										
Adults	602	585	403	418	368	356	289	376	300	385
Juveniles	114	148	117	86	122	141	145	139	108	118
Culture and Recreation (Note 3)										
Number of Parks	5	5	5	5	5	4	4	2	-	-
Park Acreage	135	135	135	135	135	135	135	109	39	22
Participants at Recreation Swims	22,068	18,949	21,920	15,351	33,684	32,838	-	-	-	-
Participants in Aquatic Activities	37,657	37,235	36,437	35,576	39,064	33,787	-	-	-	-
Aquatic Center Rental Hours	1,395	1,271	1,235	1,125	1,211	1,229	-	-	-	-
Public Works (Note 1)										
Catch Basins Cleaned	956	2,265	2,265	2,100	1,841	N/A	N/A	N/A	N/A	N/A
Slope Mowing Miles	37	210	96	48	71	N/A	N/A	N/A	N/A	N/A
Landscape Mowing Miles	100	71	65	86	22	N/A	N/A	N/A	N/A	N/A
Miles of Streets Swept	2,274	2,054	2,290	1,192	1,754	N/A	N/A	N/A	N/A	N/A
Tons of Asphalt Used	58	95	100	94	155	N/A	N/A	N/A	N/A	N/A
Work Orders Completed	1,519	1,461	1,368	1,267	656	N/A	N/A	N/A	N/A	N/A

Sources:

City of Covington Finance Department

Note 1: In previous years, some of these workload indicators were not tracked. These are shown as "N/A" (not available).

Note 2: The City contracts with King County for these services. Some statistics were unavailable. These are shown as "N/A".

Note 3: The City began operating the Covington Aquatic Center January 1, 2005, therefore no prior data is available.

Note 4: Prior to 2007, Aquatics Lessons participants were tracked by total number of *class registrations*. Beginning in 2007, it is being tracked by the attendance logs for each class session.

Table 23

**City of Covington**  
**Capital Assets by Function**  
**Last Ten Fiscal Years**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Function</b>										
Culture and Recreation										
Number of Parks	5	5	5	5	5	4	4	2	-	-
Park Acreage	135	135	135	135	135	135	135	109	39	22
Swimming Pools	1	1	1	1	1	1	1	-	-	-
Vehicles	14	12	14	14	12	8	8	7	6	4

Sources:

City of Covington Parks and Public Works Departments