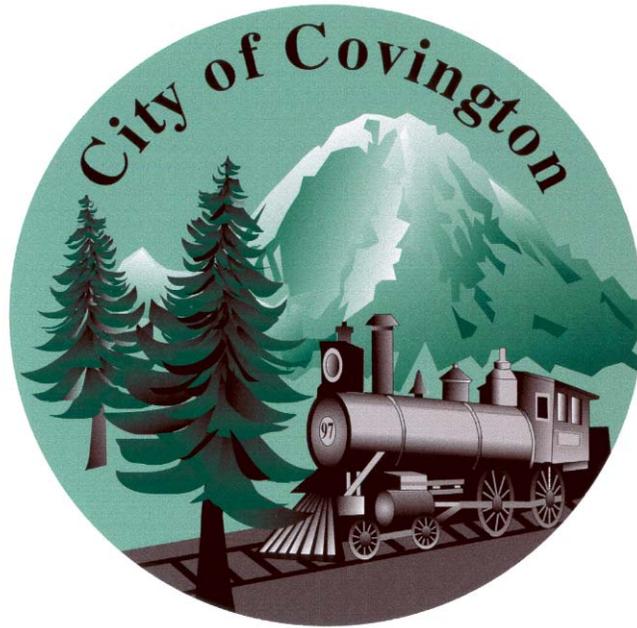


The City of
COVINGTON
WASHINGTON



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011**

COMPREHENSIVE ANNUAL FINANCIAL REPORT



CITY OF COVINGTON, WASHINGTON

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

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, 2011**

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INTRODUCTORY



City of Covington

16720 SE 271st Street, Suite 100 • Covington, WA 98042 • (253) 480-2400 • Fax: (253) 638-1122

June 27, 2012

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, 2011. 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 Principles (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 Principles (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, 2011, 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.

Profile of Government

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, 2011, 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 carry out 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 1st and 2nd 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.

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 22 of this report.

Local Economy. Again as in 2010, the Washington recovery has lost momentum during the summer after showing signs of growth during the spring. On the positive side, employment showed some real strength with an increase of 1.5% over the past year which is nearly twice the national level. The 2012 outlook for employment growth is relatively flat at 1.6%. The expectation is that overall employment will reach its pre-recession peak in the fourth quarter of 2014¹.

The Seattle consumer price index showed an increase for the first time in several years. It appears that inflation should be about 2.6% in 2011 and decreasing slightly over the next two years to 2.1% in 2013.

For Covington, real estate excise tax receipts are higher than the last two years while retail sales tax receipts exceeded the forecast for the first time since 2008. While this is good news we remain wary of how this will play out for the remainder of the year. Utility taxes are down for 2011. This revenue source continues to defy good forecasting methodology. On the plus side, utility tax has provided a safety net for the debt service over the last few years as real estate excise tax sharply declined.

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

¹ As a comparison, economists stated in 2010 that employment would reach pre-recession levels in the second quarter of 2013.

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.

Relevant Financial Policies

To help ensure its continued ability to meet immediate and long-term service objectives, the city has adopted and adheres to a set of Financial Management Policies. These policies govern the allocation and management of resources including allocation of unrestricted revenues.

Major Initiatives

Covington Community Park: Planning and design work continued in 2011 for the City's first major park. Phase I, which will see construction in 2012, includes a soccer field, parking lot, restrooms, and over a mile of trails. Phase I is expected to be completed in late 2012 or early 2013. The budget for phase I is \$2,255,000.

Develop and implement a public engagement process regarding city service levels: In 2011, the city council directed staff to create a public process whose charter was to review city service levels and make recommendations regarding priorities and funding. This committee was approved in late 2011 and meetings are expected to begin in 2012.

Northern Gateway Project: The city community development department will be engaged in a year-long planning, land use and zoning study of the 465-acre northern gateway area along state highway 18. Three department staff members will be spending around 1800 hours of time managing the project, preparing for and attending public meetings and hearings, interacting with stakeholders, writing policy language for the Comprehensive Plan, processing annexation of 300 acres of the study area, developing new zoning and design regulations to guide development for the study area, and printing a variety of maps and documents. A substantial amount of the time of senior planning personnel in the department will be devoted to this project during 2013.

CIP 1127 SE 272nd Street between Jenkins Creek and 185th Place SE: This project is to widen and reconstruct a portion of SE 272nd Street between Jenkins Creek and 185th Place SE. This project will include the crossing of Jenkins Creek with a new structure for the stream, widening the street from 2-lanes to 5-lanes including curb and gutter, 8' sidewalks, access control features, landscaping and provisions for u-turns. The budget for this project is \$13,200,000.

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, 2010. 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 prudent manner.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Robert M. Hendrickson", is written over the typed name below.

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

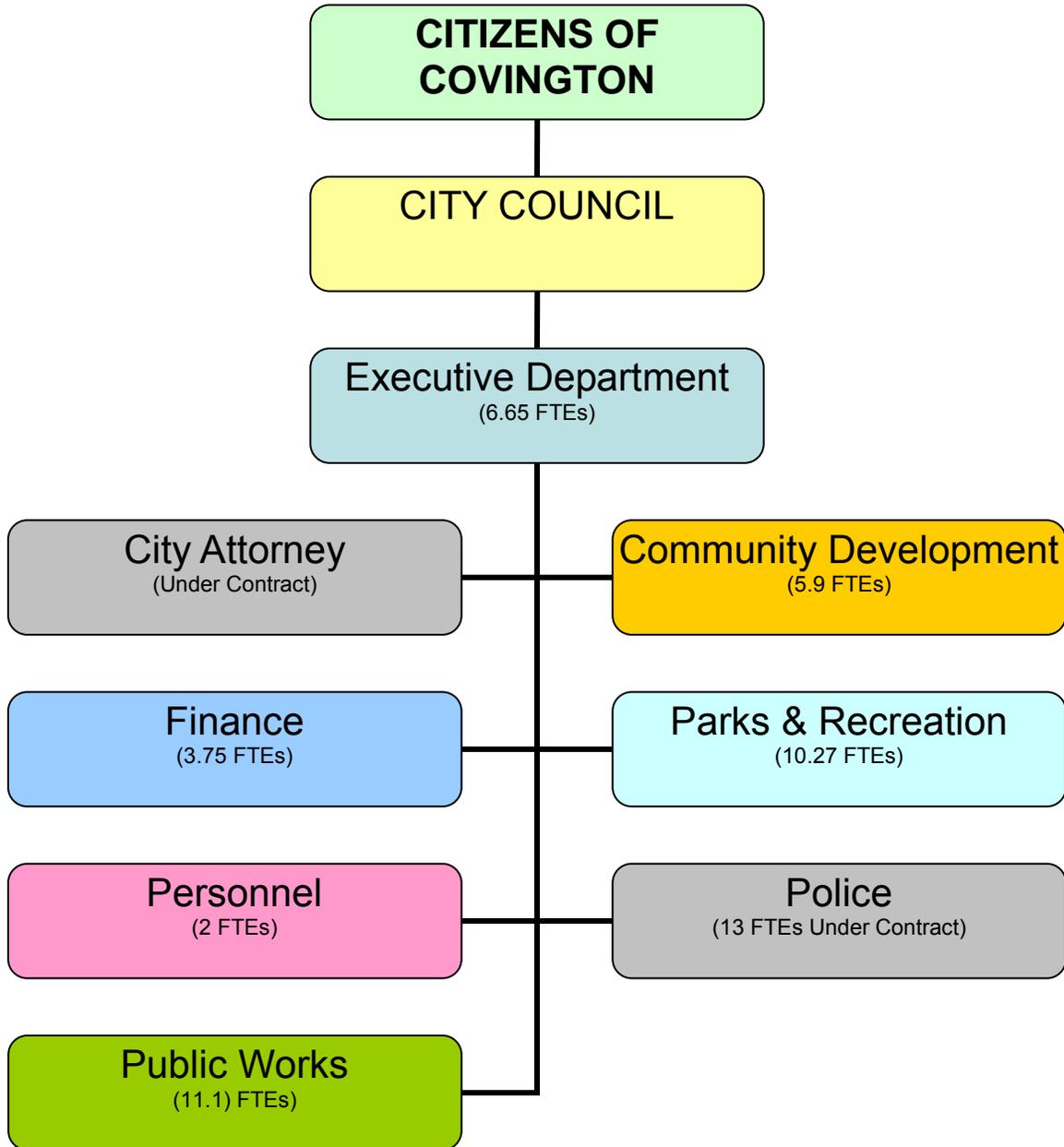
LINDSAY HAGEN

FINANCE SPECIALIST

STACI CLES

ACCOUNTING CLERK

~ **CITY OF COVINGTON** ~
ORGANIZATION CHART by FUNCTION
2011



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, 2010

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.



Linda C. Dandson

President

Jeffrey R. Emer

Executive Director

FINANCIAL

City of Covington

Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2011



Washington State Auditor
Brian Sonntag

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INDEPENDENT AUDITOR'S REPORT

June 27, 2012

Mayor and City 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, 2011, 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Development Services and Surface Water Management funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2011, the City has implemented the Governmental Accounting Standards Board Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 27, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 61 through 79 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections 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 do not express an opinion or provide any assurance on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

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, 2011. 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, 2011 by \$47,899,811 (net assets). Of the total net assets, \$7,812,761 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 \$2,138,562. A significant portion of this increase is due to the City's investment portfolio.
- As of December 31, 2011 the City's governmental funds reported a combined ending fund balance of \$10,225,655. Of this, \$4,882,804 is in the General Fund, \$1,562,733 is in the Development Services Fund, \$1,669,938 is for projects in the Surface Water Management Fund, and \$1,462,625 is in the Capital Investment Program Fund. The remainder - \$647,555 – is in Other Governmental Funds.
- As of December 31, 2011 the unassigned portion of the General Fund's fund balance is \$4,220,407. Per GASB 54, this classification has changed since 2010 and now includes unassigned fund balance from the Contingency Fund and the Cumulative Reserve Fund.

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, Municipal Court, City Manager, City Clerk, Finance, 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 24 to 25 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 five 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, Surface Water Management Fund, Long-Term Debt Fund, and the Capital Investment Program Fund. Data from four funds, which include Parks, Street, Local Improvement District 99-01 Guaranty Fund, and the Local Improvement District 99-01 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. Four remaining funds, the Real Estate Excise Tax 1st Qtr %, Real Estate Excise Tax 2nd Qtr %, Contingency Fund and the Cumulative Reserve Fund have been combined with the General Fund per the requirements in GASB 54.

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 38 to 60 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. It begins on page 80.

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, 2011, the City's net assets are \$47,899,811. Shown below is a breakdown of the City's net assets by category.

City of Covington's Net Assets

	2011	2010
Current and other assets	\$ 13,294,015	\$ 11,064,584
Capital assets	<u>51,692,879</u>	<u>52,174,580</u>
Total Assets	<u>64,986,894</u>	<u>63,239,164</u>
Long-term liabilities outstanding	15,348,893	16,120,623
Other liabilities	<u>1,738,190</u>	<u>1,357,292</u>
Total Liabilities	<u>17,087,083</u>	<u>17,477,915</u>
Net assets		
Invested in capital assets, net of related debt	36,745,357	36,451,269
Restricted	3,341,693	899,236
Unrestricted	<u>7,812,761</u>	<u>8,410,744</u>
Total Net Assets	<u>\$ 47,899,811</u>	<u>\$ 45,761,249</u>

Overall the City's financial position has improved. The City's net assets increased \$2,138,562 during the current fiscal year. A significant portion of this increase is due to the City's investment portfolio.

Of the total net assets, \$36,745,357 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 76.7% of the total net assets, a decrease of 2.9% over 2011. 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.

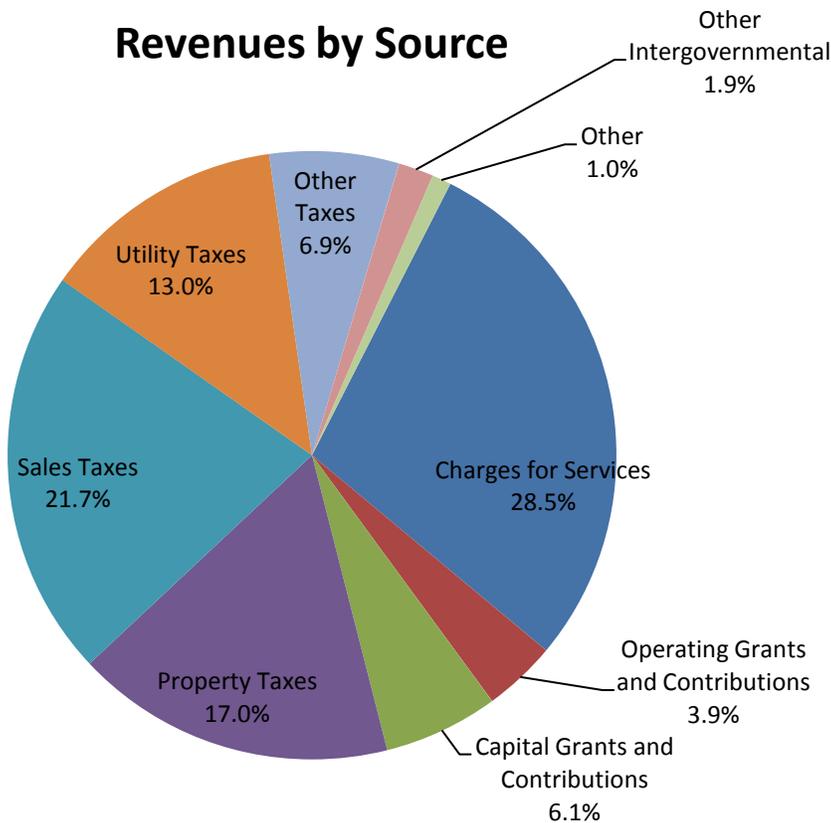
A portion of the City's net assets, \$3,341,693 represents resources that are subject to external restrictions on how they may be used. These assets are primarily related to unspent capital grants and surface water management contributions, as well as debt service reserves. The remaining balance of unrestricted net assets, \$7,812,761, 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>2011</u>	<u>2010</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 3,920,888	\$ 3,341,729
Operating Grants and Contributions	531,845	540,429
Capital Grants and Contributions	834,607	3,729,999
General Revenues:		
Property Taxes	2,331,137	1,958,320
Sales Taxes	2,983,127	2,796,876
Utility Tax	1,785,764	1,778,346
Other Taxes	942,754	779,378
Other Intergovernmental	255,991	274,758
Other	<u>139,334</u>	<u>295,270</u>
Total Revenues	<u>13,725,447</u>	<u>15,495,105</u>
Expenses:		
General Government	3,420,106	3,350,824
Community Development	1,025,432	981,746
Public Safety	2,810,419	2,784,450
Culture and Recreation	1,866,928	1,210,301
Streets and Highways	1,877,172	1,890,955
Interest on Long-Term Debt	<u>586,828</u>	<u>607,373</u>
Total Expenses	<u>11,586,885</u>	<u>10,825,649</u>
Increase in Net Assets	2,138,562	4,669,456
Net assets, January 1	<u>45,761,249</u>	<u>41,091,793</u>
Net assets, December 31	<u>\$ 47,899,881</u>	<u>\$ 45,761,249</u>

Revenues by Source

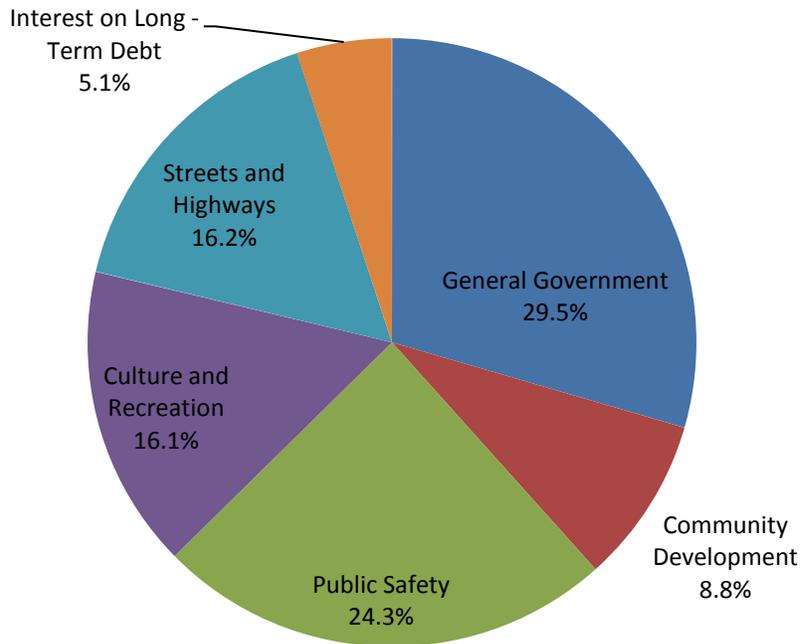


Property taxes increased by \$372,817 (19.0%) over fiscal year 2011. This increase is due to adding the banked property tax and taxpayers paying delinquent back taxes to avoid foreclosure. The City property tax rate per \$1,000 of assessed value increased from \$1.1529 in 2010 to \$1.3649 for 2011.

Sales tax revenue for 2011 increased by \$186,251 (6.7%) over fiscal year 2010. In year over year comparisons, retail sales increased by 1.4%, construction increased significantly by 102.0%, food services were up at 5.5%, and all other categories increased 5.6%.

Utility taxes increased slightly by \$7,418 (0.4%) over fiscal year 2010. The slight increase can be attributed to seasonal weather patterns and no significant population growth.

Expenses by Functions/Programs



General Government saw an increase of \$69,282 (2.1%) in expenses in 2011 over 2010. This was due to increases in court costs, additional central service expenses, public safety costs, and animal control costs.

Community Development saw an increase of \$43,686 (4.4%). The increase is attributable to increased work hours for staff due to increased workload.

Public Safety saw an increase of \$25,969 (1.0%) due to an increase in the police contract.

Culture and Recreation expenses saw the most significant increase at \$656,627 or 54.2%. This was due to expenditures incurred for Covington Community Park.

The expenses for Streets and Highways showed the only decrease — \$13,783 or 0.7% in 2011 over 2010. This decrease is due to a reduction in construction activity.

Interest on long-term debt decreased slightly as the City continued making payments on the outstanding long-term debt. See page 55 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 unassigned 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, 2011, the City of Covington governmental funds reported a combined ending fund balance of \$10,225,655 which is an increase of \$1,835,250 over 2010. A combination of increases in the

Capital Investment Program Fund, General Fund, Surface Water Management Fund, and Development Services Fund are offset by the decrease in Nonmajor Funds creating a net increase in fund balance. Of the total fund balance, \$54,350 is non-spendable, \$2,612,713 is restricted, \$1,743,845 is committed, and \$1,594,340 is assigned. The balance, \$4,220,407 is unassigned and available for spending at the City's discretion.

The General Fund is the chief operating fund of the City. GASB 54 has provided new definitions and requirements which have altered how the *General Fund* fund balance is recorded. With this change, the General Fund fund balance now includes unassigned fund balance from the Contingency Fund and the Cumulative Reserve Fund as well as restricted fund balance from the Real Estate Excise Tax 1st Qtr% Fund, and Real Estate Excise Tax 2nd Qtr% Fund. For 2011, this change increased the fund balance by \$1,972,801 from \$2,351,590 in 2010 to \$4,882,804 for 2011. On its own, the General Fund increased in fund balance by \$653,377. Forecasted tax revenues came in over budget while Management underspent expenditures. 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 fund balance to total General Fund expenditures. Fund balance represents 74.7% of total General Fund 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 \$801,274 in 2010, increased by \$761,459 to \$1,562,733 in 2011. The increase is due to increased permit activity in 2011. The number of single family permits issued in 2011 was 40 compared to 44 in 2010. Commercial permits issued in 2011 totaled six compared to zero in 2010.

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 \$373,151 from \$1,296,787 in 2010 to \$1,669,938 in 2011. An increase in drainage fee revenue, which included a payment from Bonneville Power Administration, coupled with underspending in charges for services produced this increase.

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 \$390,338 from \$1,072,287 in 2010 to \$1,462,625 in 2011. The increase is due to unanticipated intergovernmental revenues – primarily grants – and taxes being more than projected. In addition expenditures came in below budget.

General Fund Budgetary Highlights

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

The 2011 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 utility tax, which were down 12.9% from the forecast. The continued unstable economy contributed to these declines. Sales tax is allocated to the General Fund at 84% and the Parks and Recreation Fund at 16%.

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 2011, 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, 2011 is \$51,692,879 (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 a slight decrease in capital assets from fiscal year 2010 due to normal depreciation. The infrastructure capital assets only relates to those assets purchased/constructed in 2003 through 2011. 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 51.

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

	2011	2010
Land	\$18,571,026	\$18,562,206
Buildings	637,358	673,825
Improvements other than Buildings	307,602	354,857
Machinery and Equipment	240,227	241,767
Infrastructure	26,520,324	19,627,601
Intangibles	947,893	947,893
Work in Progress	4,468,449	11,766,431
Total	\$51,692,879	\$52,174,580

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 an 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 164th 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 pages 55 to 58.

Next Year's Budget

Looking ahead there are four main themes that define the 2012 budget:

- Bold cuts early in the recession have served the City well and allowed us to continue to provide quality services to the community. However, growing expenditures are catching up with flat revenues.
- Careful spending of this year's budget helps to keep deficits down into next year. Continued diligence may help the City if the economy begins to turn around.
- However, a double dip recession could necessitate a mid-year adjustment in 2012.
- The public engagement process increases in magnitude and importance.

Ongoing Budget Strategies

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 Fund's street overlay program to Street Fund operations.
- Discontinue the General Fund's transfer of utility tax revenue to Parks CIP.
- 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.
- 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.
- Restore partially the Development Service Fund's interfund payment.
- Continue the ratio of sales tax distribution to the General and Parks Funds by 84%/16%.

2012 Budget Strategies

- In 2009 and 2010 the CPI was negative and no cost of living adjustments were made. The reductions for 2009 and 2010 are being carried forward and combined with the 2011 cost of living adjustment for a net cost of living adjustment of 2.9%.
- Use fund balance to cover deficits in most funds in 2012. Most funds will have a surplus to roll into fund balance at the end of 2011.

Economic Outlook

On a national level, the recovery seems to be stalling after a strong start at the beginning of 2011. This can be attributed to a number of factors – the Japanese earthquake and tsunami (which slowed US auto production), rising gas prices, bad winter weather, a decrease in defense spending, and the political environment in Washington.

Again as in 2010, the Washington recovery has lost momentum during the summer after showing signs of growth during the spring. On the positive side, employment showed some real strength with an increase of 1.5% over the past year which is nearly twice the national level. The 2012 outlook for employment growth is relatively flat at 1.6%. The expectation is that overall employment will reach its pre-recession peak in the fourth quarter of 2014¹.

Taxable retail sales are another bright spot in the forecast. In the Puget Sound region, taxable retail sales were up 1.5% in the first quarter of 2011 from a year earlier. This reflects the third straight quarter of positive growth. Taxable retail sales could see continued growth due to an increase in personal income which is fueled by a cut in the payroll tax, a slow decline in the unemployment rate, and a modest improvement in housing starts.

¹ As a comparison, economists stated in 2010 that employment would reach pre-recession levels in the second quarter of 2013.

The Seattle consumer price index showed an increase for the first time in several years. It appears that inflation should be about 2.6% in 2011 and decreasing slightly over the next two years to 2.1% in 2013.

For Covington, real estate excise tax receipts are higher than the last two years heading into December while retail sales tax receipts are on target through the third quarter. While this is good news we remain wary of how this will play out for the remainder of the year. Utility taxes are down for 2011. This revenue source continues to defy good forecasting methodology. On the plus side, utility tax has provided a safety net for the debt service over the last few years as real estate excise tax sharply declined.

Summary

With the economy still struggling, revenues still lagging and expenditures still increasing, the effort to continue to provide a balanced budget becomes more and more difficult. Staff continues to do an excellent job of managing expenditures which provides funds that can be rolled over into the following year. However, staff can only do so much and at some point that margin will not be available and services will begin to erode unless the economy turns around or other resources are found.

So how do we continue down the path of sustainability? We'll continue to do what we've been doing.

- We'll pursue new development through this fall's Destination Covington event, which will bring together property managers, developers, real estate agents, and industry leaders to learn about why Covington is the place to be.
- We'll proceed with design of the SR 516 Jenkins Creek to 185th project.
- We'll proceed with Covington Community Park as funding allows.
- We'll pursue grant funding wherever possible.
- We'll make technology upgrades to increase the City's efficiency.
- We'll roll out the public engagement process I mentioned earlier to solidify our budget priorities.

Covington, as a city, is young. We don't have an extensive history to look back on. We don't have a lot of benchmarks to compare our progress with. We are creating our history *now* and as we move forward.

We plan to seize opportunities that make sense. We plan to keep our neighborhoods safe, our streets repaired, and our grounds maintained. And, we plan to survive this economy. With continued and increased community support we plan to keep that promise.

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 271st Street, Suite 100, Covington, WA 98042.

BASIC FINANCIAL STATEMENTS

City of Covington
Statement of Net Assets
December 31, 2011

Assets

Cash and Cash Equivalents	\$ 7,591,022
Deposit - Internal Fiscal Agency	46,010
Investments	2,695,523
Receivables (net of allowances for uncollectibles, where applicable):	
Accounts	302,219
Special Assessments	221,508
Interest	23,845
Property Taxes	47,314
Intergovernmental	2,239,593
Prepaid Items	54,350
Bond Issuance Costs (Net of Amortization)	72,631
Capital Assets Not Being Depreciated:	
Land	18,571,026
Intangible Assets	947,893
Work In Progress	4,468,449
Capital Assets Net of Depreciation:	
Buildings	637,358
Improvements Other than Buildings	307,602
Machinery and Equipment	240,227
Infrastructure	<u>26,520,324</u>
Total Assets	<u>\$ 64,986,894</u>

Liabilities

Accounts Payable	\$ 294,906
Accrued Interest Payable	224,321
Accrued Payroll/Benefits	140,093
Due to Other Governmental Entities	124,642
Performance Bonds	10,590
Unearned Revenue	943,638
Long-Term Liabilities	
Due Within One Year	
Compensated Absences	280,024
General Obligation Bonds	532,603
Other Long-Term Debt	214,896
Due in More Than One Year	
Compensated Absences	121,347
Special Assessment Debt with Government Commitment	62,896
General Obligation Bonds	11,558,379
Other Long-Term Debt	<u>2,578,748</u>
Total Liabilities	<u>17,087,083</u>

Net Assets

Invested in Capital Assets	
Net of Related Debt	36,745,357
Restricted for:	
Debt Service	77,689
Surface Water Management	2,613,840
Capital Improvement Projects	650,164
Unrestricted	<u>7,812,761</u>
Total Net Assets	<u>\$ 47,899,811</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, 2011

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	\$ 3,420,106	\$ 229,385	\$ 80,644	\$ -	\$ (3,110,077)
Community Development	1,025,432	1,487,058	-	-	461,626
Public Safety	2,810,419	12,100	-	-	(2,798,319)
Culture and Recreation	1,866,928	515,174	2,000	25	(1,349,729)
Streets and Highways	1,877,172	1,677,171	449,201	834,582	1,083,782
Interest on Long Term Debt	586,828	-	-	-	(586,828)
Total Governmental Activities	<u>11,586,885</u>	<u>3,920,888</u>	<u>531,845</u>	<u>834,607</u>	<u>(6,299,545)</u>
General Revenues					
Taxes:					
Property Tax					2,331,137
Sales Tax					2,983,127
Utility Tax					1,785,764
Local Criminal Justice					355,112
Real Estate Excise Tax					280,174
Property Tax Parks Expansion Levy					111,212
Franchise Fee (Taxes)					196,256
MVET-Criminal Justice					47,832
Liquor Board Profits					122,500
Liquor Excise Tax					85,659
Interest Income					52,383
Miscellaneous					86,951
Total General Revenues					<u>8,438,107</u>
Change in Net Assets					2,138,562
Net Assets, January 1					<u>45,761,249</u>
Net Assets, December 31					<u>\$ 47,899,811</u>

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

City of Covington
Balance Sheet
Governmental Funds
December 31, 2011

	<u>General</u>	<u>Special Revenue Funds</u>	
		<u>Development Services</u>	<u>Surface Water Management</u>
<u>Assets and Other Debits</u>			
Cash and Cash Equivalents	\$1,685,862	\$ 1,593,261	\$ 1,540,517
Deposit - Internal Fiscal Agency	-	-	-
Investments	2,541,052	-	154,471
Receivables (net of allowances for uncollectibles, where applicable):			
Accounts	227,311	9,093	207
Special Assessments	-	-	-
Interest	10,324	-	2,889
Property Taxes	47,314	-	-
Intergovernmental	699,233	8,906	977,335
Prepaid Items	<u>26,150</u>	<u>6,257</u>	<u>9,399</u>
Total Assets	<u>\$5,237,246</u>	<u>\$ 1,617,517</u>	<u>\$ 2,684,818</u>
<u>Liabilities</u>			
Accounts Payable	\$ 160,229	\$ 5,624	\$ 37,538
Accrued Payroll/Benefits	66,086	20,999	21,326
Due to Other Governmental Entities	80,813	17,571	2,715
Performance Bonds	-	10,590	-
Deferred Revenue	<u>47,314</u>	<u>-</u>	<u>953,301</u>
Total Liabilities	<u>354,442</u>	<u>54,784</u>	<u>1,014,880</u>
<u>Fund Balance</u>			
Fund Balances:			
Nonspendable	26,150	6,257	9,399
Restricted	25,164	-	1,660,539
Committed	-	1,556,476	-
Assigned	611,083	-	-
Unassigned	<u>4,220,407</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>4,882,804</u>	<u>1,562,733</u>	<u>1,669,938</u>
Total Liabilities and Fund Balances	<u>\$5,237,246</u>	<u>\$ 1,617,517</u>	<u>\$ 2,684,818</u>

Continued Next Page

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

City of Covington
Balance Sheet, Continued
Governmental Funds
December 31, 2011

<u>Debt Service Fund</u>	<u>Capital Project Fund</u>	<u>Other</u>	<u>Total</u>
Long-Term Debt	Capital Investment Program	Governmental Funds	Governmental Funds
\$ -	\$ 1,791,425	\$ 491,795	\$ 7,102,860
-	-	46,010	46,010
-	-	-	2,695,523
-	-	65,608	302,219
-	-	221,508	221,508
-	-	10,632	23,845
-	-	-	47,314
-	398,159	155,960	2,239,593
-	-	12,544	54,350
<u>\$ -</u>	<u>\$ 2,189,584</u>	<u>\$ 1,004,057</u>	<u>\$12,733,222</u>
\$ -	\$ 11,036	\$ 79,490	\$ 293,917
-	-	29,541	137,952
-	4,425	15,331	120,855
-	-	-	10,590
-	711,498	232,140	1,944,253
-	726,959	356,502	2,507,567
-	-	12,544	54,350
-	874,485	52,525	2,612,713
-	-	187,369	1,743,845
-	588,140	395,117	1,594,340
-	-	-	4,220,407
-	1,462,625	647,555	10,225,655
<u>\$ -</u>	<u>\$ 2,189,584</u>	<u>\$ 1,004,057</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 (\$53,885,673) are shown net of Accumulated Depreciation (\$2,396,002). Capital Assets are included in the Statement of Net Assets. 51,489,671

Other long-term assets such as property tax receivable (\$47,314) and surface water management fees receivable (\$953,301) 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. 1,000,615

Long-term liabilities such as compensated absences (\$401,371), Termination Benefits (2,141) General Obligation Bond Payable (\$12,018,351), LID Bond Payable (\$62,896), Public Works Trust Fund Loan (\$2,793,644), and Accrued Interest Payable (\$224,321) are not due and payable in the current period and, therefore, are not reported in the governmental funds. (15,502,724)

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. 686,594

Net assets of governmental activities \$47,899,811

City of Covington
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended December 31, 2011

	General	Special Revenue Funds	
		Development Services	Surface Water Management
Revenues:			
Taxes	\$ 7,287,731	\$ -	\$ -
Licenses and Permits	-	617,123	-
Intergovernmental	339,245	36,137	82,681
Charges for Goods and Services	19,566	928,003	1,661,446
Fines and Forfeitures	155,093	(328)	-
Special Assessments	-	-	-
Interest Income	42,544	2,002	4,749
Interfund Services Payment	656,362	-	-
Miscellaneous	54,994	4	(2,568)
Total Revenues	8,555,535	1,582,941	1,746,308
Expenditures:			
Current:			
General Government	3,367,630	-	-
Community Development	354,986	821,482	-
Public Safety	2,810,419	-	-
Culture and Recreation	-	-	-
Streets and Highways	-	-	1,340,320
Capital Outlay:			
General Government	4,297	-	-
Culture and Recreation	-	-	-
Streets and Highways	-	-	-
Debt Service:			
Principal	-	-	-
Interest	-	-	32,837
Total Expenditures	6,537,332	821,482	1,373,157
Excess (Deficiency) of Revenues Over Expenditures	2,018,203	761,459	373,151
Other Financing Sources (Uses):			
Transfers In	251,012	-	-
Transfers Out	(1,710,870)	-	-
Compensation from Loss of Assets	68	-	-
Total Other Financing Sources (Uses)	(1,459,790)	-	-
Net Change in Fund Balances	558,413	761,459	373,151
Fund Balances, January 1	2,351,590	801,274	1,296,787
Reclassifications:			
Special Revenue Fund to General Fund per GASB 54	1,972,801	-	-
Fund Balances - January 1, Reclassified	4,324,391	801,274	1,296,787
Fund Balances, December 31	\$ 4,882,804	\$ 1,562,733	\$ 1,669,938

Continued Next Page

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

City of Covington
Statement of Revenues, Expenditures, and
Changes in Fund Balances, Continued
Governmental Funds
For the Fiscal Year Ended December 31, 2011

<u>Debt Service Fund</u>	<u>Capital Project Fund</u>	<u>Other</u>	<u>Totals</u>
Long - Term Debt	Capital Investment Program	Governmental Funds	Governmental Funds
\$ -	\$ 111,212	\$ 455,462	\$ 7,854,405
-	-	196,256	813,379
-	729,294	368,520	1,555,877
-	54,485	386,823	3,050,323
-	-	-	154,765
-	-	39,650	39,650
-	2,103	985	52,383
-	-	-	656,362
-	25	128,366	180,821
-	897,119	1,576,062	14,357,965
-	-	-	3,367,630
-	-	-	1,176,468
-	-	-	2,810,419
-	-	1,160,501	1,160,501
-	36	814,629	2,154,985
-	-	-	4,297
-	73,492	-	73,492
-	398,900	8,243	407,143
721,816	-	51,340	773,156
561,161	-	5,483	599,481
<u>1,282,977</u>	<u>472,428</u>	<u>2,040,196</u>	<u>12,527,572</u>
(1,282,977)	424,691	(464,134)	1,830,393
1,282,977	-	489,729	2,023,718
-	(34,353)	(278,495)	(2,023,718)
-	-	4,789	4,857
<u>1,282,977</u>	<u>(34,353)</u>	<u>216,023</u>	<u>4,857</u>
-	390,338	(248,111)	1,835,250
-	1,072,287	895,666	6,417,604
-	-	-	1,972,801
-	1,072,287	895,666	8,390,405
<u>\$ -</u>	<u>\$ 1,462,625</u>	<u>\$ 647,555</u>	<u>\$ 10,225,655</u>

City of Covington
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended December 31, 2011

Amounts reported for Governmental Activities in the Statement of Activities (see page 25) are different because:

Net Change in Fund Balances - total Governmental funds (see pages 28-29)	\$ 1,835,250
Governmental funds revenues are only reported when they provide current financial resources. However, in the Statement of Activities, revenues are recognized when earned.	7,834
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net assets.	(6,945)
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 \$393,627 less current year depreciation of (\$896,188).	(502,561)
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 \$4,059 and termination benefits \$2,141.	(6,200)
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.	773,156
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 \$12,653. Amortization of bond premium \$2,633.	15,286
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.	(3,157) 32,630
Change in net assets of governmental activities (see page 25)	\$ 2,138,562

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, 2011

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues:				
Taxes	\$ 7,163,779	\$ 7,463,779	\$ 7,287,731	\$ (176,048)
Intergovernmental	321,497	338,497	339,245	748
Charges for Goods and Services	682,040	682,040	675,928	(6,112)
Fines and Forfeitures	123,100	123,100	155,093	31,993
Interest Income	28,575	28,975	42,544	13,569
Miscellaneous	25,500	25,500	54,994	29,494
Total Revenues	8,344,491	8,661,891	8,555,535	(106,356)
Expenditures:				
Current:				
General Government:				
City Council	92,297	92,297	98,175	5,878
Council Contingency	50,000	50,000	-	(50,000)
City Court	502,600	502,600	611,667	109,067
City Manager	877,368	877,368	860,540	(16,828)
Finance	506,501	506,501	490,348	(16,153)
City Attorney	86,000	86,000	66,253	(19,747)
Personnel	326,636	343,636	343,991	355
Central Services	932,007	932,007	896,656	(35,351)
Total General Government	3,373,409	3,390,409	3,367,630	(22,779)
Community Development:				
Total Community Development	436,153	436,153	354,986	(81,167)
Public Safety:				
Total Public Safety	3,023,183	3,023,183	2,810,419	(212,764)
Capital Outlay:				
General Government	-	-	4,297	4,297
Total Expenditures	6,832,745	6,849,745	6,537,332	(312,413)
Excess (Deficiency) of Revenues Over Expenditures	1,511,746	1,812,146	2,018,203	206,057
Other Financing Sources (Uses):				
Transfers In	251,012	251,012	251,012	-
Transfers Out	(1,710,869)	(1,710,869)	(1,710,870)	(1)
Compensation Loss of Asset	-	-	68	68
Total Other Financing Sources (Uses)	(1,459,857)	(1,459,857)	(1,459,790)	67
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	51,889	352,289	558,413	206,124
Fund Balances, January 1	2,674,479	2,351,590	2,351,590	-
Reclassifications:				
Special Revenue Fund to General Fund per GASB 54	1,831,941	1,972,801	1,972,801	-
Fund Balances - January 1, Reclassified	4,506,420	4,324,391	4,324,391	-
Fund Balances, December 31	\$ 4,558,309	\$ 4,676,680	\$ 4,882,804	\$ 206,124

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, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues:				
Licenses and Permits	\$ 403,266	\$ 403,266	\$ 617,123	\$ 213,857
Intergovernmental	2,100	2,100	36,137	34,037
Charges for Goods and Services	271,329	271,329	928,003	656,674
Fines and Forfeitures	-	-	(328)	(328)
Interest Income	600	600	2,002	1,402
Miscellaneous	-	-	4	4
	<u>677,295</u>	<u>677,295</u>	<u>1,582,941</u>	<u>905,646</u>
Total Revenues				
Expenditures:				
Current:				
Community Development	<u>661,777</u>	<u>661,777</u>	<u>821,482</u>	<u>159,705</u>
	<u>661,777</u>	<u>661,777</u>	<u>821,482</u>	<u>159,705</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over Expenditures	<u>15,518</u>	<u>15,518</u>	<u>761,459</u>	<u>745,941</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	15,518	15,518	761,459	745,941
Fund Balances, January 1	<u>549,984</u>	<u>801,274</u>	<u>801,274</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 565,502</u></u>	<u><u>\$ 816,792</u></u>	<u><u>\$ 1,562,733</u></u>	<u><u>\$ 745,941</u></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, 2011

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues:				
Intergovernmental	\$ 78,295	\$ 78,295	\$ 82,681	\$ 4,386
Charges for Goods and Services	1,542,260	1,542,260	1,661,446	119,186
Interest Income	2,300	2,300	4,749	2,449
Miscellaneous	-	-	(2,568)	(2,568)
Total Revenues	1,622,855	1,622,855	1,746,308	123,453
Expenditures:				
Current:				
Public Works	1,443,754	1,443,754	1,340,320	(103,434)
Debt Service:				
Interest	32,000	32,000	32,837	837
Total Expenditures	1,475,754	1,475,754	1,373,157	(102,597)
Excess (Deficiency) of Revenues Over Expenditures	147,101	147,101	373,151	226,050
Other Financing Sources (Uses):				
Transfers Out	(53,500)	(53,500)	-	53,500
Total Other Financing Sources (Uses)	(53,500)	(53,500)	-	53,500
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	93,601	93,601	373,151	279,550
Fund Balances, January 1	1,235,797	1,296,787	1,296,787	-
Fund Balances, December 31	\$ 1,329,398	\$ 1,390,388	\$ 1,669,938	\$ 279,550

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

City of Covington
Statement of Net Assets
Proprietary Funds
December 31, 2011

	<u>Governmental Activities- Internal Service Funds</u>
<u>Assets and other Debits</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 488,162
Total Current Assets	<u>488,162</u>
Capital Assets:	
Machinery and Equipment	403,755
Work in Progress	9,467
Accumulated Depreciation	<u>(210,014)</u>
Total Capital Assets (net of accumulated depreciation)	<u>203,208</u>
Total Assets	<u>691,370</u>
 <u>Liabilities</u>	
Current Liabilities:	
Accounts Payable	989
Due to Other Governmental Entities	<u>3,787</u>
Total Liabilities	<u>4,776</u>
 <u>Net Assets</u>	
Invested in Capital Assets	203,208
Unrestricted	<u>483,386</u>
Total Net Assets	<u>\$ 686,594</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
Proprietary Funds
For the Fiscal Year Ended December 31, 2011

	<u>Governmental Activities- Internal Service Funds</u>
Operating Revenues:	
Unemployment Charges	\$ 37,069
Fuel and Maintenance Assessments	32,724
Equipment Replacement Assessments	<u>66,358</u>
Total Operating Revenues	<u>136,151</u>
Operating Expenses:	
Unemployment Benefits Paid	40,479
Vehicle Fuel	17,484
Repairs and Maintenance of Vehicles	15,240
Depreciation	<u>55,597</u>
Total Operating Expenses	<u>128,800</u>
Operating Income (Loss)	<u>7,351</u>
Nonoperating Revenues (Expenses)	
Interest Income	<u>908</u>
Total Nonoperating Revenues (Expenses)	<u>908</u>
Capital Contributions:	
General Fund	13,000
Street Fund	1,325
Surface Water Management Fund	<u>6,889</u>
Total Capital Contributions	<u>21,214</u>
Change in Net Assets	29,473
Net Assets, January 1	<u>657,121</u>
Net Assets, December 31	<u><u>\$ 686,594</u></u>

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

City of Covington
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2011

	<u>Governmental Activities- Internal Service Funds</u>
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	\$ 136,151
Payments Made to Suppliers	(35,276)
Cash Paid for Unemployment Assessments	(48,364)
Net Cash Provided by Operating Activities	<u>52,511</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Disposition of Asset	3,413
Work in Progress	(9,467)
Vehicle Replacement	(52,720)
Net Cash Received (used) for Capital Activities	<u>(58,774)</u>
Cash Flows from Investing Activities:	
Interest Received	909
Net Cash Provided by Investing Activities	<u>909</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,354)
Cash and Cash Equivalents, January 1	<u>493,516</u>
Cash and Cash Equivalents, December 31	<u>\$ 488,162</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	<u>\$ 7,351</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Increase/(Decrease) in Accounts Payable	(2,552)
Increase/(Decrease) in Due to Other Governmental Entities	(7,885)
Depreciation	55,597
Total Adjustments to Net Cash Provided by Operating Activities	<u>45,160</u>
Net Cash Provided by Operating Activities	<u>\$ 52,511</u>
Noncash Capital Activities	
Capital Contributions:	
General Fund	\$ 13,000
Street Fund	1,325
Surface Water Management Fund	6,889
Total Capital Contributions	<u>\$ 21,214</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, 2011)

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.

GASB 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. Non-major funds are aggregated in a column in the fund financial statements.

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. In 2011 the City adopted Ordinance No. 17-11 which committed the entire beginning fund balance as well as all funds receipted into the Development Services Fund and the non-major Parks Fund for purposes of GASB 54.
- *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 Fund – This Fund is used to account for the financing of major capital acquisitions and construction projects other than those financed by Proprietary Funds.

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.

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.

Interest Receivable represents amounts due to the City from interest earned but not yet received.

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:

<u>Capital Asset Types</u>	<u>Lives in Years</u>
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, 2011 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.

Termination Benefits. As of December 31, 2011 The City has the following Involuntary Health-Care Related Termination Benefits to report:

Premium	\$ 2,141
Less: Member Contribution	<u>-</u>
Employer Contribution	<u>\$ 2,141</u>

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. Equity Classification

Government-wide statements: Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

12. Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different fund balance categories that a governmental entity must use for financial reporting purposes in its governmental fund types.

GASB 54 requires governmental type fund balance amounts to be properly reported within one of the fund balance categories listed below:

Nonspendable – Amounts that cannot be spent either because they are nonspendable in form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws of regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The same formal action must be taken to remove or change the limitations placed on the funds. The City Council is the highest level of decision making authority for the City.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The City has granted authority to the City Manager to assign fund balance amounts.

Unassigned – The residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. Additionally, other funds may report negative unassigned fund balance in certain circumstances.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City has provided otherwise in its commitment or assignment actions.

13. Minimum Fund Balance

The City has adopted a minimum fund balance described as follows:

An appropriate level of Unassigned Fund Balance should be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls. This Fund Balance Policy establishes a minimum Unassigned Fund Balance equal to 10% of the General Fund operating expenditures.

The City has elected to require on certain special revenue funds (Street Fund, Parks Fund, and Surface Water Management Fund) a minimum of 10% of operating expenditures in Unrestricted Fund Balance. The Development Services Fund will be required to have a 15% minimum of operating expenditures in Unrestricted Fund Balance.

In the event that the balance drops below the established minimum level, the City's governing body will develop a plan to replenish the fund balance to the established minimum level as economic conditions allow.

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 balances - total governmental funds and net assets - governmental activities as reported in the Government-wide Statement of Net Assets. The details of this \$37,674,156 difference are shown on the Governmental Funds Balance Sheet on page number 27.

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 \$2,138,562 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 30.

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, 2011, the carrying amount of the City's deposits was \$7,637,032, and the total bank balance was \$7,636,432. 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, 2011, the City's total deposits and cash equivalents, including investment in the State Treasurer's Pool, consisted of the following:

Operating Accounts	\$ 181,338
State Treasurer's Pool	7,443,107
Forfeiture Account	11,987
Petty Cash	<u>600</u>
Total Cash and Cash Equivalents	<u>\$7,637,032</u>

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):

<u>Authorized Investment Type</u>	<u>Maximum % of Portfolio</u>
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 Securities	\$ 2,505,405	\$ -	\$ -	\$ 1,501,445	\$ 1,003,960	AAA
Municipal Securities	190,118	-	10,076	180,042	-	A2
State of Washington Local Governmental Investment Pool (LGIP)	-	-	-	-	-	Unrated
Total	<u>\$ 2,695,523</u>	<u>\$ -</u>	<u>\$ 10,076</u>	<u>\$ 1,681,487</u>	<u>\$ 1,003,960</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, 2011 all of the \$2,695,523 investments in U.S. agency debt obligations and municipal securities 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 2011 was \$1.3649 per \$1,000 of assessed valuation, including exempt properties, of \$1,728,896,039 for a total regular levy of \$2,348,820.

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, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 18,562,206	\$ 8,820	\$ -	\$ 18,571,026
Intangibles	947,893	-	-	947,893
Work in Progress	11,766,431	480,662	(7,778,644)	4,468,449
Total capital assets, not being depreciated	<u>31,276,530</u>	<u>489,482</u>	<u>(7,778,644)</u>	<u>23,987,368</u>
Capital assets, being depreciated:				
Buildings	729,346	-	-	729,346
Improvements other than buildings	657,010	-	-	657,010
Machinery and equipment	721,486	85,984	(82,217)	725,253
Infrastructure	<u>20,444,441</u>	<u>7,755,477</u>	<u>-</u>	<u>28,199,918</u>
Total capital assets being depreciated	<u>22,552,283</u>	<u>7,841,461</u>	<u>(82,217)</u>	<u>30,311,527</u>
Less accumulated depreciation for:				
Buildings	(55,521)	(36,467)	-	(91,988)
Improvements other than buildings	(302,153)	(47,255)	-	(349,408)
Machinery and equipment	(479,719)	(81,774)	76,467	(485,026)
Infrastructure	<u>(816,840)</u>	<u>(862,754)</u>	<u>-</u>	<u>(1,679,594)</u>
Total accumulated depreciation	<u>(1,654,233)</u>	<u>(1,028,250)</u>	<u>76,467</u>	<u>(2,606,016)</u>
Total capital assets, being depreciated net	<u>20,898,050</u>	<u>6,813,211</u>	<u>(5,750)</u>	<u>27,705,511</u>
Governmental activities capital assets, net	<u>\$ 52,174,580</u>	<u>\$ 7,302,693</u>	<u>\$ (7,784,394)</u>	<u>\$ 51,692,879</u>

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

Governmental Activities	
General Government	\$ 44,039
Community Development	3,236
Public Safety	-
Culture and Recreation	90,619
Streets and Highways	834,759
Capital assets held by the government's Internal Service Funds	<u>55,597</u>
 Total depreciation expense - governmental activities	 <u><u>\$1,028,250</u></u>

B. Construction Commitments

The City of Covington has active construction projects as of December 31, 2011.

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 Community Park	MacLeod Reckord	\$ 503,794	\$ 3,149
SR 516 Safety Widening	Rodarte Construction, Inc.	<u>2,349,445</u>	<u>7,244</u>
		<u>\$ 2,853,239</u>	<u>\$ 10,393</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 ICMA-RC. 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, 2011 through December 31, 2011, was \$2,892,374. The City's total payroll for the same period was \$3,118,948. The table below shows the required percentage contribution and the total actual contributions for 2011 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%	\$95,448
Employer	7.5%	\$216,929

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 ICMA-RC. 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, 2011 through December 31, 2011 was \$3,118,948. The City's total payroll for the same period was \$3,118,948. The table below shows the required percentage contribution and the total actual contributions for 2011 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%	\$193,375
Employer	5.6%	\$174,661

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 150 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, 2011, the City obligated \$121,347 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, 2011.

Changes in Long-Term Liabilities

Description	Interest Rate	Fund Used to Pay Debt	Issue Date	Maturity Date	Original Debt Issued	Debt Outstanding 1/1/11	Debt Issued in 2011	Debt Redemption in 2011	Debt Outstanding 12/31/2011	Due Within One Year
Governmental activities:										
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	42,249	-	2,633	39,616	-
2007T (Taxable)	5.43%	Long-Term Debt Service	6/5/2007	11/1/2015	2,505,000	2,290,000	-	490,000	1,800,000	515,000
2008 (Tax-Exempt)	4.00%	Long-Term Debt Service	6/10/2008	6/1/2023	308,068	268,286	-	16,920	251,366	17,603
Special assessment debt with government commitment	4.80%	L.I.D. 99.01	7/1/2004	7/1/2021	460,100	114,236	-	51,340	62,896	-
Compensated absences						397,312	81,551	77,492	401,371	280,024
Other Long-Term Debt:										
DCTED Public Works Trust Fund Loan	0.50%	Long-Term Debt Service	7/1/2004	7/1/2024	<u>3,785,500</u>	<u>3,008,540</u>	<u>-</u>	<u>214,896</u>	<u>2,793,644</u>	<u>214,896</u>
TOTAL					<u>\$ 17,111,323</u>	<u>\$ 16,120,623</u>	<u>\$ 81,551</u>	<u>\$ 853,281</u>	<u>\$ 15,348,893</u>	<u>\$ 1,027,523</u>

As of December 31, 2011, 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	
2012	\$ 532,603	\$ 519,856	\$ -	\$ 3,019	\$ 214,896	\$ 13,968	\$ 1,284,342
2013	563,314	492,107	-	3,019	214,896	12,894	1,286,230
2014	589,054	462,646	-	3,019	214,896	11,819	1,281,434
2015	619,824	431,438	-	3,019	214,896	10,745	1,279,922
2016	650,625	403,267	-	3,019	214,896	9,670	1,281,477
2017-2021	3,696,317	1,568,469	62,896	14,843	1,074,479	32,234	6,449,239
2022-2026	4,414,630	759,169	-	-	644,687	6,447	5,824,934
2027	<u>985,000</u>	<u>40,631</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,025,631</u>
Total	<u>\$ 12,051,367</u>	<u>\$ 4,677,585</u>	<u>\$ 62,896</u>	<u>\$ 29,938</u>	<u>\$ 2,793,646</u>	<u>\$ 97,778</u>	<u>\$ 19,713,209</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 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 \$323,129 for the year ended December 31, 2011.

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:

Fiscal Year	
<u>Ending</u>	<u>Amount</u>
2012	\$ 331,207
2013	339,487
2014	347,974
2015	356,673
2016	365,590
2017-2022	374,730
Total	<u><u>\$2,115,661</u></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, 2011, is as follows:

Interfund transfers:

	Transfer In:			Total
	General Fund	Long - Term Debt Service Fund	Nonmajor Governmental	
Transfer Out:				
General Fund	\$ -	\$ 1,255,494	\$ 455,376	\$1,710,870
Nonmajor Governmental	251,012	27,483	-	278,495
Capital Investment Program Fund	-	-	34,353	34,353
Total Transfers	<u>251,012</u>	<u>\$ 1,282,977</u>	<u>\$ 489,729</u>	<u>\$2,023,718</u>

The transfers from the General Fund were general operating transfers for ongoing expenses that are being funded from Utility Tax revenues as well as a debt service transfer. The transfer from the Non-major governmental funds is to pay debt service. The transfer from the Capital Investment Program Fund to the Street Fund is for a pavement assessment contract.

NOTE 12: RESTRICTED NET ASSETS

The Government-wide Statement of Net Assets reports \$3,341,693 of restricted net assets which are restricted for debt service (\$77,689), surface water management (\$2,613,840), and capital improvement projects (\$650,164).

NOTE 13: OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

The City does not currently offer any postemployment benefit plans.

NOTE 14: GOVERNMENTAL FUND BALANCES

Fund balance amounts for governmental funds have been reported in the categories of nonspendable, restricted, committed, assigned, and unassigned. The specific purposes for these amounts are as follows:

	Special Revenue Funds			Capital Project Fund		
	Development	Surface	Water	Capital	Other	Total
	Services	Management	Investment	Program	Governmental	Governmental
<u>Fund Balance</u>	General	Services	Management	Program	Funds	Funds
Fund Balances:						
Nonspendable:						
Prepays	\$ 26,150	\$ 6,257	\$ 9,399	\$ -	\$ 12,544	\$ 54,350
Restricted for:						
Debt Service	25,164	-	-	-	52,525	77,689
Surface Water Management	-	-	1,660,539	-	-	1,660,539
Capital Improvement Projects	-	-	-	874,485	-	874,485
Committed to:						
Development Services	-	1,556,476	-	-	-	1,556,476
Parks and Recreation	-	-	-	-	187,369	187,369
Assigned to:						
Projected Budgetary Deficit	611,083	-	-	588,140	37,967	1,237,190
Street Maintenance	-	-	-	-	357,150	357,150
Unassigned	4,220,407	-	-	-	-	4,220,407
Total Fund Balances	\$ 4,882,804	\$ 1,562,733	\$ 1,669,938	\$ 1,462,625	\$ 647,555	\$ 10,225,655

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

Nonmajor Governmental Funds

City of Covington
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2011

	Special Revenue Funds		Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds
	Parks	Street	Local Improvement District 99-01 Guaranty	Local Improvement District 99-01	
Assets and other Debits					
Cash and Cash Equivalents	\$ 217,219	\$ 268,052	\$ 6,254	\$ 270	\$ 491,795
Deposit Internal Fiscal Agent	-	-	46,010	-	46,010
Receivables (net of allowances for uncollectibles, where applicable):					
Accounts	5,402	60,206	-	-	65,608
Special Assessments	-	-	-	221,508	221,508
Interest	-	-	-	10,632	10,632
Intergovernmental	98,768	57,192	-	-	155,960
Prepaid Items	7,064	5,480	-	-	12,544
Total Assets	\$ 328,453	\$ 390,930	\$ 52,264	\$ 232,410	\$ 1,004,057
Liabilities					
Accounts Payable	\$ 70,468	\$ 9,022	-	-	\$ 79,490
Accrued Payroll/Benefits	19,000	10,541	-	-	29,541
Due to Other Governmental Entities	6,594	8,737	-	-	15,331
Deferred Revenue	-	-	-	232,140	232,140
Total Liabilities	96,062	28,300	-	232,140	356,502
Fund Balances					
Fund Balances:					
Nonspendable	7,064	5,480	-	-	12,544
Restricted	-	-	52,264	261	52,525
Committed	187,369	-	-	-	187,369
Assigned	37,958	357,150	-	9	395,117
Total Fund Balances	232,391	362,630	52,264	270	647,555
Total Liabilities and Fund Balances	\$ 328,453	\$ 390,930	\$ 52,264	\$ 232,410	\$ 1,004,057

City of Covington
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended December 31, 2011

	Special Revenue Funds		Debt Service Fund	Capital Project Fund	Total Nonmajor Governmental Funds
	Parks	Street	Local Improvement District 99-01 Guaranty	Local Improvement District 99-01	
Revenues:					
Taxes	\$ 455,462	\$ -	\$ -	\$ -	\$ 455,462
Licenses and Permits	-	196,256	-	-	196,256
Intergovernmental	2,000	366,520	-	-	368,520
Charges for Goods and Services	386,823	-	-	-	386,823
Special Assessments	-	-	-	39,650	39,650
Interest Income	363	507	96	19	985
Miscellaneous	128,351	15	-	-	128,366
Total Revenues	972,999	563,298	96	39,669	1,576,062
Expenditures:					
Current:					
Culture and Recreation	1,160,501	-	-	-	1,160,501
Streets and Highways	-	814,629	-	-	814,629
Debt Service:					
Principal	-	-	-	51,340	51,340
Interest	-	-	-	5,483	5,483
Total Expenditures	1,160,501	822,383	-	57,312	2,040,196
Excess (Deficiency) of Revenues Over Expenditures	(187,502)	(259,085)	96	(17,643)	(446,491)
Other Financing Sources (Uses):					
Transfers In	211,147	278,582	-	-	489,729
Transfers Out	(27,483)	(251,012)	-	-	(278,495)
Compensation from Loss of Assets	2,881	1,908	-	-	4,789
Total Other Financing Sources (Uses)	186,545	29,478	-	-	216,023
Net Change in Fund Balances	(957)	(229,607)	96	(17,643)	(248,111)
Fund Balances, January 1	233,348	592,237	52,168	17,913	895,666
Fund Balances, December 31	\$ 232,391	\$ 362,630	\$ 52,264	\$ 270	\$ 647,555

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 funds:

Parks Fund – This fund is used to account for Parks programs which include parks maintenance as well as the Covington Aquatic Center.

Street Fund – This fund is used to account for the State collected gasoline tax, which is restricted for street purposes.

City of Covington
Parks Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual
For the Fiscal Year Ended December 31, 2011

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues:				
Taxes	\$ 465,000	\$ 465,000	\$ 455,462	\$ (9,538)
Intergovernmental	-	2,000	2,000	-
Charges for Goods and Services	403,760	403,760	386,823	(16,937)
Interest Income	500	500	363	(137)
Miscellaneous	131,950	131,950	128,351	(3,599)
Total Revenues	1,001,210	1,003,210	972,999	(30,211)
Expenditures:				
Current:				
Culture and Recreation:				
Parks Maintenance	167,844	167,844	150,638	(17,206)
Aquatics	656,366	658,366	712,770	54,404
Recreation and Special Events	130,490	130,490	119,569	(10,921)
Parks Administration	192,023	192,023	177,524	(14,499)
Total Culture and Recreation	1,146,723	1,148,723	1,160,501	11,778
Total Expenditures	1,146,723	1,148,723	1,160,501	11,778
Excess (Deficiency) of Revenues Over Expenditures	(145,513)	(145,513)	(187,502)	(41,989)
Other Financing Sources (Uses):				
Transfers In	211,147	211,147	211,147	-
Transfers Out	(27,484)	(27,484)	(27,483)	1
Compensation from Loss of Assets	-	-	2,881	2,881
Total Other Financing Sources (Uses)	183,663	183,663	186,545	2,882
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	38,150	38,150	(957)	(39,107)
Fund Balances, January 1	209,215	233,348	233,348	-
Fund Balances, December 31	<u>\$ 247,365</u>	<u>\$ 271,498</u>	<u>\$ 232,391</u>	<u>\$ (39,107)</u>

City of Covington
Street Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual
For the Fiscal Year Ended December 31, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		Over (Under)
Revenues:				
Licenses and Permits	\$ 199,000	\$ 199,000	\$ 196,256	\$ (2,744)
Intergovernmental	378,202	378,202	366,520	(11,682)
Interest Income	1,000	1,000	507	(493)
Miscellaneous	<u>-</u>	<u>-</u>	<u>15</u>	<u>15</u>
Total Revenues	<u>578,202</u>	<u>578,202</u>	<u>563,298</u>	<u>(14,904)</u>
Expenditures:				
Current:				
Streets and Highways	<u>824,366</u>	<u>950,366</u>	<u>814,629</u>	<u>(135,737)</u>
Capital Outlay:				
Streets and Highways	<u>-</u>	<u>-</u>	<u>7,754</u>	<u>7,754</u>
Total Expenditures	<u>824,366</u>	<u>950,366</u>	<u>822,383</u>	<u>(127,983)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(246,164)</u>	<u>(372,164)</u>	<u>(259,085)</u>	<u>113,079</u>
Other Financing Sources (Uses):				
Transfers In	244,229	370,229	278,582	(91,647)
Transfers Out	(251,012)	(251,012)	(251,012)	-
Compensation for Loss of Assets	<u>-</u>	<u>-</u>	<u>1,908</u>	<u>1,908</u>
Total Other Financing Sources (Uses)	<u>(6,783)</u>	<u>119,217</u>	<u>29,478</u>	<u>(89,739)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(252,947)	(252,947)	(229,607)	23,340
Fund Balances, January 1	<u>586,920</u>	<u>592,237</u>	<u>592,237</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 333,973</u></u>	<u><u>\$ 339,290</u></u>	<u><u>\$ 362,630</u></u>	<u><u>\$ 23,340</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 and major debt service funds:

Non-major Fund

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.

Major Fund

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, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues:				
Interest Income	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ 96</u>	<u>\$ (4)</u>
Total Revenues	<u>100</u>	<u>100</u>	<u>96</u>	<u>(4)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>100</u>	<u>100</u>	<u>96</u>	<u>(4)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	100	100	96	(4)
Fund Balances, January 1	<u>52,125</u>	<u>52,168</u>	<u>52,168</u>	<u>-</u>
Fund Balances, December 31	<u><u>\$ 52,225</u></u>	<u><u>\$ 52,268</u></u>	<u><u>\$ 52,264</u></u>	<u><u>\$ (4)</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, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Expenditures:				
Debt Service:				
Principal	\$ 721,816	\$ 721,816	\$ 721,816	\$ -
Interest	<u>561,161</u>	<u>561,161</u>	<u>561,161</u>	<u>-</u>
Total Expenditures	<u>1,282,977</u>	<u>1,282,977</u>	<u>1,282,977</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,282,977)</u>	<u>(1,282,977)</u>	<u>(1,282,977)</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfer In	<u>1,282,977</u>	<u>1,282,977</u>	<u>1,282,977</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>1,282,977</u>	<u>1,282,977</u>	<u>1,282,977</u>	<u>-</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>

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

Capital Project

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 non-major and major capital project funds:

Non-major

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.

Major

Capital Investment Program Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues:				
Special Assessments	\$ 42,491	\$ 42,491	\$ 39,650	\$ (2,841)
Interest Income	20	20	19	(1)
Total Revenues	<u>42,511</u>	<u>42,511</u>	<u>39,669</u>	<u>(2,842)</u>
Expenditures:				
Capital Outlay:				
Streets and Highways	750	750	489	(261)
Debt Service:				
Principal	44,505	44,505	51,340	6,835
Interest	5,483	5,483	5,483	-
Total Expenditures	<u>50,738</u>	<u>50,738</u>	<u>57,312</u>	<u>6,574</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,227)</u>	<u>(8,227)</u>	<u>(17,643)</u>	<u>(9,416)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(8,227)	(8,227)	(17,643)	(9,416)
Fund Balances, January 1	<u>8,227</u>	<u>17,913</u>	<u>17,913</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ 9,686</u>	<u>\$ 270</u>	<u>\$ (9,416)</u>

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, 2011

	Budget		Actual	Variance
	Original	Final		Over (Under)
Revenues:				
Taxes	\$ -	\$ -	\$ 111,212	\$ 111,212
Intergovernmental	19,406	378,406	729,294	350,888
Charges for Goods and Services	-	-	54,485	54,485
Interest Income	2,000	2,000	2,103	103
Miscellaneous	-	-	25	25
Total Revenues	21,406	380,406	897,119	516,713
Expenditures:				
Current:				
Streets and Highways	-	-	36	36
Capital Outlay:				
Culture and Recreation	65,550	65,550	73,492	7,942
Streets and Highways	72,906	431,906	398,900	(33,006)
Total Expenditures	138,456	497,456	472,428	(25,028)
Excess (Deficiency) of Revenues Over Expenditures	(117,050)	(117,050)	424,691	541,741
Other Financing Sources (Uses):				
Transfer In	53,500	53,500	-	(53,500)
Transfer Out	-	(36,000)	(34,353)	1,647
Total Other Financing Sources (Uses)	53,500	17,500	(34,353)	(51,853)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(63,550)	(99,550)	390,338	489,888
Fund Balances, January 1	367,593	1,072,287	1,072,287	-
Fund Balances, December 31	\$ 304,043	\$ 972,737	\$ 1,462,625	\$ 489,888

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

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, 2011
(with Comparative Actual Totals for the Fiscal Year Ended December 31, 2010)

	Final Budget	Actual	Variance Over (Under)	Actual 2010
<u>Taxes</u>				
Property Tax	\$ 2,356,779	\$ 2,339,013	\$ (17,766)	\$ 1,976,819
Sales Tax	2,439,000	2,527,665	88,665	2,237,501
Local Criminal Justice	352,000	355,112	3,112	337,172
Utility Tax	2,016,000	1,785,764	(230,236)	1,778,346
Real Estate Excise Tax	300,000	280,174	(19,826)	442,206
Other	-	3	3	31
Total Taxes	<u>7,463,779</u>	<u>7,287,731</u>	<u>(176,048)</u>	<u>6,772,075</u>
<u>Intergovernmental</u>				
MVET-Criminal Justice	47,672	47,832	160	47,686
Liquor Board Profits	129,478	122,500	(6,978)	140,224
Liquor Excise Tax	87,847	85,659	(2,188)	86,848
Grants	73,500	80,644	7,144	92,072
Other	-	2,610	2,610	-
Total Intergovernmental	<u>338,497</u>	<u>339,245</u>	<u>748</u>	<u>366,830</u>
<u>Charges for Goods and Services</u>				
Planning and Development Fees	3,000	2,730	(270)	3,354
Public Safety	7,500	12,100	4,600	6,759
Interfund Services Payment	669,980	656,362	(13,618)	588,194
Miscellaneous	1,560	4,736	3,176	1,703
Total Charges for Goods and Services	<u>682,040</u>	<u>675,928</u>	<u>(6,112)</u>	<u>600,010</u>
<u>Fines and Forfeitures</u>				
City Court	123,100	155,093	31,993	127,662
Total Fines and Forfeitures	<u>123,100</u>	<u>155,093</u>	<u>31,993</u>	<u>127,662</u>
<u>Miscellaneous</u>				
Interest Income	28,975	42,544	13,569	21,284
Technology Fee	18,000	32,334	14,334	33,022
Rentals	2,500	6,472	3,972	3,989
Other	5,000	16,188	11,188	30,100
Total Miscellaneous	<u>54,475</u>	<u>97,538</u>	<u>43,063</u>	<u>88,395</u>
<u>Other Financing Sources</u>				
Compensation Loss of Asset	-	68	68	14
Total Other Financing Sources	<u>-</u>	<u>68</u>	<u>68</u>	<u>14</u>
Total General Fund Revenues	<u>\$ 8,661,891</u>	<u>\$ 8,555,603</u>	<u>\$ (106,288)</u>	<u>\$ 7,954,986</u>

Internal Service

Internal Service Funds are used to 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 – 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, 2011

	<u>Unemployment Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
<u>Assets and other Debits</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 137,442	\$ 350,720	\$ 488,162
Total Current Assets	<u>137,442</u>	<u>350,720</u>	<u>488,162</u>
Noncurrent Assets:			
Capital Assets:			
Machinery and Equipment	-	403,755	403,755
Work in Progress	-	9,467	9,467
Accumulated Depreciation	-	(210,014)	(210,014)
Total Capital Assets (net of accumulated depreciation)	<u>-</u>	<u>203,208</u>	<u>203,208</u>
Total Assets	<u>137,442</u>	<u>553,928</u>	<u>691,370</u>
 <u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	-	989	989
Due to Other Governmental Entities	<u>3,787</u>	<u>-</u>	<u>3,787</u>
Total Liabilities	<u>3,787</u>	<u>989</u>	<u>4,776</u>
 <u>Net Assets</u>			
Invested in Capital Assets	-	203,208	203,208
Unrestricted	<u>133,655</u>	<u>349,731</u>	<u>483,386</u>
Total Net Assets	<u>\$ 133,655</u>	<u>\$ 552,939</u>	<u>\$ 686,594</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, 2011

	<u>Unemployment Insurance</u>	<u>Equipment Replacement</u>	<u>Total</u>
Operating Revenues:			
Unemployment Charges	\$ 37,069	\$ -	\$ 37,069
Fuel and Maintenance Assessments	-	32,724	32,724
Equipment Replacement Assessments	-	66,358	66,358
	<u>37,069</u>	<u>99,082</u>	<u>136,151</u>
Total Operating Revenues			
Operating Expenses:			
Unemployment Benefits Paid	40,479	-	40,479
Vehicle Fuel	-	17,484	17,484
Repairs and Maintenance of Vehicles	-	15,240	15,240
Depreciation	-	55,597	55,597
	<u>40,479</u>	<u>88,321</u>	<u>128,800</u>
Total Operating Expenses			
Operating Income (Loss)	<u>(3,410)</u>	<u>10,761</u>	<u>7,351</u>
Nonoperating Revenues (Expenses)			
Interest Revenue	<u>253</u>	<u>655</u>	<u>908</u>
Total Nonoperating Revenues (Expenses)	<u>253</u>	<u>655</u>	<u>908</u>
Capital Contributions:			
General Fund	-	13,000	13,000
Street Fund	-	1,325	1,325
Surface Water Management Fund	-	6,889	6,889
	<u>-</u>	<u>21,214</u>	<u>21,214</u>
Total Capital Contributions			
Change in Net Assets	(3,157)	32,630	29,473
Net Assets, January 1	<u>136,812</u>	<u>520,309</u>	<u>657,121</u>
Net Assets, December 31	<u>\$ 133,655</u>	<u>\$ 552,939</u>	<u>\$ 686,594</u>

City of Covington
Internal Service Funds
Combining Statement of Cash Flows
For the Fiscal Year Ended December 31, 2011

	Unemployment Insurance	Equipment Replacement	Total
Cash Flows from Operating Activities:			
Cash Received from Quasi-External Transactions:			
Unemployment Contributions	\$ 37,069	\$ -	\$ 37,069
Vehicle Fuel and Maintenance Assessments	-	32,724	32,724
Vehicle Replacement Assessments	-	66,358	66,358
Total Cash Received from Quasi-External Transactions	<u>37,069</u>	<u>99,082</u>	<u>136,151</u>
Payments Made to Suppliers	-	(35,276)	(35,276)
Insurance Proceeds	-	-	-
Cash Paid for Unemployment Assessments	<u>(48,364)</u>	<u>-</u>	<u>(48,364)</u>
Net Cash Provided by Operating Activities	<u>(11,295)</u>	<u>63,806</u>	<u>52,511</u>
Cash Flows from Capital Activities:			
Proceeds from Disposition of Asset	-	3,413	3,413
Work in Progress	-	(9,467)	(9,467)
Vehicle Replacement	-	(52,720)	(52,720)
Net Cash Received (Used) for Capital Activities	<u>-</u>	<u>(58,774)</u>	<u>(58,774)</u>
Cash Flows from Investing Activities:			
Interest Received	<u>253</u>	<u>656</u>	<u>909</u>
Net Cash Provided by Investing Activities	<u>253</u>	<u>656</u>	<u>909</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(11,042)	5,688	(5,354)
Cash and Cash Equivalents, January 1	<u>148,484</u>	<u>345,032</u>	<u>493,516</u>
Cash and Cash Equivalents, December 31	<u>\$ 137,442</u>	<u>\$ 350,720</u>	<u>\$ 488,162</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income	<u>\$ (3,410)</u>	<u>\$ 10,761</u>	<u>\$ 7,351</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Increase/(Decrease) in Accounts Payable	-	(2,552)	(2,552)
Increase/(Decrease) in Due to Other Governmental Entities	(7,885)	-	(7,885)
Depreciation	-	55,597	55,597
Total Adjustments to Net Cash Provided by Operating Activities	<u>(7,885)</u>	<u>53,045</u>	<u>45,160</u>
Net Cash Provided by Operating Activities	<u>\$ (11,295)</u>	<u>\$ 63,806</u>	<u>\$ 52,511</u>
Noncash Capital Activities			
Capital Contributions:			
General Fund	\$ -	\$ 13,000	\$ 13,000
Street Fund	-	1,325	1,325
Surface Water Management Fund	-	6,889	6,889
Total Capital Contributions	<u>\$ -</u>	<u>\$ 21,214</u>	<u>\$ 21,214</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.

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

	<u>2011</u>	<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	\$36,745,357	\$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	3,341,693	899,236	819,528	335,937	8,806,853	4,766,096	5,684,386	3,853,300	3,018,089
Unrestricted	<u>7,812,761</u>	<u>8,410,744</u>	<u>7,640,005</u>	<u>7,945,250</u>	<u>5,784,137</u>	<u>1,268,451</u>	<u>2,390,358</u>	<u>2,265,944</u>	<u>3,911,021</u>
Total Governmental Activities Net Assets	<u>\$47,899,811</u>	<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.

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Expenses									
Governmental Activities:									
General Government	\$ 3,420,106	\$ 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	1,025,432	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	2,810,419	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	1,866,928	1,210,301	1,201,680	945,176	770,396	1,194,095	1,455,678	783,835	755,099
Streets and Highways	1,877,172	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	586,828	607,373	615,379	619,402	491,504	29,916	-	-	-
Total Governmental Activities Expenses	11,586,885	10,825,649	11,881,800	10,732,453	9,501,726	8,434,715	7,395,104	7,170,480	6,652,830
Total Primary Government Expenses	\$ 11,586,885	\$ 10,825,649	\$ 11,881,800	\$ 10,732,453	\$ 9,501,726	\$ 8,434,715	\$ 7,395,104	\$ 7,170,480	\$ 6,652,830
Program Revenues									
Governmental Activities:									
Charges for Services:									
General Government	\$ 229,385	\$ 190,859	\$ 223,530	\$ 184,387	\$ 152,367	\$ 120,834	\$ 82,755	\$ 98,064	\$ 125,150
Community Development	1,487,058	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	12,100	6,759	-	-	-	-	-	-	-
Culture and Recreation	515,174	501,461	461,341	460,354	348,832	589,093	639,282	55,518	200
Streets and Highways	1,677,171	1,558,598	1,418,986	1,246,132	1,104,765	993,177	837,630	753,814	698,864
Operating Grants and Contributions	531,845	540,429	609,253	578,957	510,222	448,938	726,560	486,401	699,865
Capital Grants and Contributions	834,607	3,729,999	3,416,677	7,115,216	5,846,259	1,987,731	1,316,052	3,639,117	1,707,336
Total Governmental Activities Program Revenues	5,287,340	7,612,157	6,685,137	11,067,332	10,073,471	5,345,947	4,665,197	6,469,438	5,034,165
Total Primary Government Program Revenues	\$ 5,287,340	\$ 7,612,157	\$ 6,685,137	\$ 11,067,332	\$ 10,073,471	\$ 5,345,947	\$ 4,665,197	\$ 6,469,438	\$ 5,034,165
Net (Expense)/Revenue									
Governmental Activities									
Total Primary Government Net Expense	\$ (6,299,545)	\$ (3,213,492)	\$ (5,196,663)	\$ 334,879	\$ 571,745	\$ (3,088,768)	\$ (2,729,907)	\$ (701,042)	\$ (1,618,665)
	\$ (6,299,545)	\$ (3,213,492)	\$ (5,196,663)	\$ 334,879	\$ 571,745	\$ (3,088,768)	\$ (2,729,907)	\$ (701,042)	\$ (1,618,665)
General Revenues and Other Changes in Net Assets									
Governmental Activities:									
Taxes									
Property Tax	\$ 2,331,137	\$ 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	2,983,127	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	1,785,764	1,778,346	1,857,471	1,601,734	-	-	-	-	-
Local Criminal Justice	355,112	337,172	342,588	396,749	428,029	389,306	335,156	325,377	275,667
Real Estate Excise Tax	280,174	442,206	303,668	424,548	1,029,449	986,741	1,183,361	1,112,265	968,250
Property Tax Parks Expansion Levy	111,212	-	-	-	-	-	-	-	-
Franchise Fee (Taxes)	196,256	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	47,832	47,686	49,330	44,614	44,003	41,216	34,762	30,665	31,998
Liquor Board Profits	122,500	140,224	119,454	116,182	126,115	110,200	107,737	107,639	90,559
Liquor Excise Tax	85,659	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	52,383	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	86,951	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	8,438,107	7,882,948	7,931,412	8,110,519	7,174,928	6,368,319	5,731,120	5,310,352	4,588,746
Total Primary Government	\$ 8,438,107	\$ 7,882,948	\$ 7,931,412	\$ 8,110,519	\$ 7,174,928	\$ 6,368,319	\$ 5,731,120	\$ 5,310,352	\$ 4,588,746
Change in Net Assets									
Governmental Activities									
Total Primary Government	\$ 2,138,562	\$ 4,669,456	\$ 2,734,749	\$ 8,445,398	\$ 7,746,673	\$ 3,279,551	\$ 3,001,213	\$ 4,609,310	\$ 2,970,081
	\$ 2,138,562	\$ 4,669,456	\$ 2,734,749	\$ 8,445,398	\$ 7,746,673	\$ 3,279,551	\$ 3,001,213	\$ 4,609,310	\$ 2,970,081

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

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

<u>Fiscal Year</u>	<u>Property</u>	<u>Sales and Use</u>	<u>Utility</u>	<u>Local Criminal Justice</u>	<u>Real Estate Excise</u>	<u>All Others</u>
2003	1,439,287	1,208,228	-	275,667	968,250	286,114
2004	1,523,582	1,700,265	-	325,377	1,112,265	325,137
2005	1,649,330	1,782,296	-	335,156	1,183,361	350,886
2006	1,864,214	2,079,881	-	389,306	986,741	380,004
2007	1,942,431	2,372,141	-	428,029	1,029,449	419,562
2008	1,971,567	2,865,929	1,601,734	396,749	424,548	426,665
2009	2,067,945	2,778,789	1,857,471	342,588	303,668	443,770
2010	1,958,320	2,796,876	1,778,346	337,172	442,206	472,571
2011	2,331,137	2,983,127	1,785,764	355,112	280,174	563,459
Change 2003-2011	62.0%	146.9%	100.0%	28.8%	-71.1%	96.9%

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

City of Covington
Taxable Sales by Category
Last Ten Fiscal Years

	<u>2011</u>	<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>
Retail	\$ 2,078,015	\$ 2,048,892	\$ 2,002,369	\$ 1,561,998	\$ 1,384,995	\$ 1,274,762	\$ 1,070,292	\$ 737,944	\$ 569,359	\$ 525,484
Contracting	242,218	119,897	180,435	680,289	397,439	301,466	247,070	517,992	295,583	251,131
Food Services	334,515	317,125	308,971	290,862	275,171	231,207	216,073	166,065	138,501	128,994
Services - Other	125,154	124,960	121,771	100,224	86,171	86,931	70,331	103,677	77,403	63,120
Transportation/Communication/Utilities	73,184	72,068	70,688	86,664	90,871	60,242	65,940	57,589	44,791	36,316
Wholesale	41,599	42,521	40,946	67,002	53,282	45,688	46,400	46,519	23,838	27,548
Finance/Insurance/Real Estate	20,738	26,855	29,919	44,693	54,714	52,767	46,737	48,355	39,893	35,817
Other	67,704	44,558	23,690	34,199	29,498	26,818	19,453	22,124	18,860	23,478
Total Sales Tax	\$ 2,983,127	\$ 2,796,876	\$ 2,778,789	\$ 2,865,931	\$ 2,372,141	\$ 2,079,881	\$ 1,782,296	\$ 1,700,265	\$ 1,208,228	\$ 1,091,888

Source: Washington State Department of Revenue

City of Covington
Sales Tax Revenue Payers by Industry
Current and Nine Years Ago

	Fiscal Year 2011				Fiscal Year 2002			
	Number of Filers	Percentage of Total	Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Tax Liability	Percentage of Total
Unknown	6	0.1%	\$ 42,147	1.4%	8	0.4%	\$ 5,426	0.5%
Agriculture, Forestry, Fishing	18	0.4%	3,286	0.1%	6	0.3%	694	0.1%
Mining	5	0.1%	632	0.0%	4	0.2%	7,131	0.7%
Utilities	3	0.1%	256	0.0%	1	0.0%	145	0.0%
Construction	1,104	22.9%	242,218	8.1%	758	37.3%	251,131	23.0%
Manufacturing	300	6.2%	21,649	0.7%	54	2.7%	10,227	0.9%
Wholesale Trade	674	14.0%	41,599	1.4%	201	9.9%	27,548	2.5%
Retail Trade	1,356	28.1%	2,078,015	69.7%	381	18.8%	525,484	48.1%
Transportation and Warehousing	16	0.3%	1,357	0.0%	6	0.3%	136	0.0%
Information	151	3.1%	71,571	2.4%	81	4.0%	36,035	3.3%
Finance and Insurance	50	1.0%	6,046	0.2%	35	1.7%	7,084	0.6%
Real Estate, Rental, Leasing	121	2.5%	14,692	0.5%	78	3.8%	28,733	2.6%
Prof. Sci, Technical Svcs	222	4.6%	11,106	0.4%	46	2.3%	3,243	0.3%
Company Management	2	0.0%	1	0.0%	1	0.0%	6	0.0%
Admin, Supp, Remed Svcs	399	8.3%	25,571	0.9%	194	9.5%	15,423	1.4%
Educational Services	33	0.7%	362	0.0%	5	0.2%	10	0.0%
Health Care Social Assistance	31	0.6%	3,508	0.1%	13	0.6%	1,987	0.2%
Arts, Entertain, Recreation	28	0.6%	32,105	1.1%	7	0.3%	217	0.0%
Accomodation and Food Svcs	75	1.6%	334,515	11.2%	37	1.8%	128,994	11.8%
Other Services	220	4.6%	25,387	0.9%	114	5.6%	15,335	1.4%
Public Administration	6	0.1%	27,114	0.9%	2	0.1%	26,899	2.5%
	<u>4,820</u>	<u>100.0%</u>	<u>\$ 2,983,137</u>	<u>100.0%</u>	<u>2,032</u>	<u>100.0%</u>	<u>\$ 1,091,888</u>	<u>100.0%</u>

Source: Taxtools Database by Microflex, Inc.

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not provided. The categories presented are intended to provide alternate information regarding the sources of the state's revenues.

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

	2011	2010	2009	2008 (Note 3)	2007 (Note 2)	2006	2005	2004	2003	2002
Local Rate:										
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%	0.100%	0.100%	0.100%	0.100%	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%	0.900%	0.800%	0.800%	0.800%	0.800%	0.800%
Criminal Justice Tax (0.10% Total) (Note 1)										
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	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%
Total Local Rate	2.100%	2.100%	2.100%	2.100%	2.000%	1.900%	1.900%	1.900%	1.900%	1.900%
City of Covington Share										
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%
Total City of Covington	0.926%	0.926%	0.926%	0.926%	0.926%	0.926%	0.926%	0.926%	0.926%	0.926%
King County Share	1.074%	1.074%	1.074%	1.074%	1.074%	0.974%	0.974%	0.974%	0.974%	0.974%
State of Washington	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%
Total Sales Tax Rate	8.600%	8.600%	8.600%	8.600%	8.500%	8.400%	8.400%	8.400%	8.400%	8.400%

Note 1: 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 2: Effective 4/1/07, King County Metro increased transit portion of sales tax by one tenth of a percent.

Note 3: 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

City of Covington
Fund Balances of Governmental Funds (Note 1)
Last Ten Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
General Fund										
Reserved	\$ -	\$ 65,411	\$ 74,391	\$ 60,372	\$ 4,000	\$ 33,944	\$ 33,141	\$ 32,547	\$ 28,699	\$ 6,813
Unreserved	-	2,286,179	2,226,147	2,150,676	1,300,941	884,386	2,064,632	1,962,157	2,448,592	2,901,287
Nonspendable	26,150	-	-	-	-	-	-	-	-	-
Restricted	25,164	-	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	611,083	-	-	-	-	-	-	-	-	-
Unassigned	4,220,407	-	-	-	-	-	-	-	-	-
Total General Fund	<u>4,882,804</u>	<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>
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
Debt Service Funds	-	6,158	6,015	5,656	4,354	-	-	-	-	-
Capital Projects Funds	-	1,090,200	1,057,613	750,860	9,382,875	4,608,286	5,584,960	3,752,620	1,845,244	2,398,906
Nonspendable	28,200	-	-	-	-	-	-	-	-	-
Restricted	2,587,549	-	-	-	-	-	-	-	-	-
Committed	1,743,845	-	-	-	-	-	-	-	-	-
Assigned	983,257	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-
Total All Other Governmental Funds	<u>5,342,851</u>	<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>
Total Governmental Funds	<u>\$ 10,225,655</u>	<u>\$ 8,390,405</u>	<u>\$ 7,580,819</u>	<u>\$ 7,760,970</u>	<u>\$ 14,302,873</u>	<u>\$ 7,310,522</u>	<u>\$ 8,602,739</u>	<u>\$ 6,722,049</u>	<u>\$ 5,178,402</u>	<u>\$ 6,445,162</u>

Note 1: This schedule was modified with the implementation of GASB 54, effective fiscal year 2011, which affected the categories used to report fund balances.

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues										
Taxes	\$ 7,854,405	\$ 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
Licenses and Permits	813,379	646,497	502,276	814,074	1,225,381	663,967	602,659	917,827	1,156,590	669,756
Intergovernmental	1,555,877	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
Charges for Goods and Services	3,050,323	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
Fines and Forfeitures	154,765	128,214	138,291	112,069	101,248	101,895	120,965	85,162	112,607	87,610
Special Assessment	39,650	52,122	43,869	74,271	103,285	20,973	30,673	1,171,675	-	-
Interest Income	52,383	30,375	75,045	459,741	641,261	464,875	274,206	137,216	93,385	162,310
Penalties	-	-	-	3,388	6,777	1,780	4,775	-	-	-
Interfund Services Payment	656,362	588,194	866,000	1,167,185	392,360	213,000	-	-	-	-
Miscellaneous	180,821	208,795	234,611	622,516	134,841	450,742	162,541	84,715	13,198	8,945
Total Revenues	<u>14,357,965</u>	<u>15,047,778</u>	<u>14,455,579</u>	<u>15,794,109</u>	<u>16,695,047</u>	<u>11,843,153</u>	<u>10,141,135</u>	<u>11,695,373</u>	<u>9,253,005</u>	<u>8,414,343</u>
Expenditures										
Current										
General Government	3,367,630	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
Community Development	1,176,468	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
Public Safety	2,810,419	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
Culture and Recreation	1,160,501	1,202,554	1,151,642	932,694	688,198	1,159,896	1,449,981	571,785	419,790	-
Streets and Highways	2,154,985	2,134,312	2,420,338	2,061,538	1,957,620	1,619,822	861,857	716,496	701,326	2,888,125
Capital Outlay										
General Government	4,297	5,973	-	21,451	12,446	66,599	-	48,179	13,169	482,309
Community Development	-	-	17	-	-	14,807	5,343	55,303	25,067	-
Public Safety	-	-	-	-	-	-	-	7,995	-	-
Culture and Recreation	73,492	126,374	357,962	750,243	195,986	181,565	458,226	938,498	1,887,430	-
Streets and Highways	407,143	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
Debt service										
Principal	773,156	466,479	272,728	398,187	169,855	70,358	-	-	-	1,304
Interest	599,481	613,308	617,106	619,718	250,598	25,869	26,132	20,836	41,347	33,888
Bond Issuance Cost	-	-	-	12,080	92,646	-	-	-	-	-
Total Expenditures	<u>12,527,572</u>	<u>14,238,762</u>	<u>14,724,130</u>	<u>22,966,674</u>	<u>24,339,044</u>	<u>13,984,785</u>	<u>8,483,824</u>	<u>11,371,333</u>	<u>10,776,729</u>	<u>8,545,882</u>
Excess of Revenues over (under) Expenditures	<u>1,830,393</u>	<u>809,016</u>	<u>(268,551)</u>	<u>(7,172,565)</u>	<u>(7,643,997)</u>	<u>(2,141,632)</u>	<u>1,657,311</u>	<u>324,040</u>	<u>(1,523,724)</u>	<u>(131,539)</u>
Other Financing Sources (Uses)										
Transfers In	2,023,718	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
Transfers Out	(2,023,718)	(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)
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	4,857	570	2,731	2,377	60,928	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>4,857</u>	<u>570</u>	<u>88,400</u>	<u>630,662</u>	<u>14,636,348</u>	<u>946,375</u>	<u>223,379</u>	<u>1,219,607</u>	<u>256,964</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ 1,835,250</u>	<u>\$ 809,586</u>	<u>\$ (180,151)</u>	<u>\$(6,541,903)</u>	<u>\$ 6,992,351</u>	<u>\$(1,195,257)</u>	<u>\$ 1,880,690</u>	<u>\$ 1,543,647</u>	<u>\$(1,266,760)</u>	<u>\$ (131,539)</u>
Debt service as a percentage of noncapital expenditures	11.40%	9.39%	7.19%	8.47%	4.46%	1.12%	0.37%	0.29%	0.65%	0.50%

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

	<u>2011</u>	<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>
Property Tax	\$2,339,013	\$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
Sales Tax	2,983,127	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
Utility Tax	1,785,764	1,778,346	1,857,471	1,601,734	-	-	-	-	-	-
Local Criminal Justice	355,112	337,172	342,588	396,749	428,029	389,306	335,156	325,377	275,667	264,554
Real Estate Excise Tax	280,174	442,206	303,668	424,548	1,029,449	986,741	1,183,361	1,112,265	968,250	700,706
All Others	111,215	31	53	25	-	-	350,886	325,137	286,114	250,334
Total Taxes	<u>\$7,854,405</u>	<u>\$7,331,450</u>	<u>\$7,328,863</u>	<u>\$7,252,738</u>	<u>\$5,771,775</u>	<u>\$5,314,051</u>	<u>\$5,327,185</u>	<u>\$4,977,359</u>	<u>\$ 4,137,742</u>	<u>\$3,643,176</u>

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)			
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
2011	666,600,332	1,019,431,097	761,334	-	28,248,339	13,854,937	-	1,728,896,039	1.3649	3,838,928

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

City of Covington
Direct and Overlapping Property Tax Rates (Note 1)
Per One Thousand of Assessed Valuation
Last Ten Fiscal Years

Fiscal Year	City of Covington			Overlapping Rates							Total
	Operating	Debt Service	Total Rate	School District	King County	King County Fire District	Washington State	Port of Seattle	Other		
2002	\$ 1.40772	\$ -	\$ 1.40772	\$ 4.86509	\$ 1.44949	\$ 1.37062	\$ 2.98946	\$ 0.18956	\$ 0.87224	\$ 13.14418	
2003	1.32315	-	1.32315	4.73667	1.34948	1.33808	2.89680	0.25895	0.87965	12.78278	
2004	1.28369	-	1.28369	4.71717	1.43146	1.29833	2.75678	0.25402	0.86570	12.60715	
2005	1.24664	-	1.24664	4.79809	1.38229	1.50000	2.68951	0.25321	0.85476	12.72450	
2006	1.20452	-	1.20452	4.59334	1.32869	1.42180	2.49787	0.23330	0.81306	12.09258	
2007	1.15224	-	1.15224	4.17559	1.24284	1.35107	2.32535	0.23158	1.26300	11.74167	
2008	1.04814	-	1.04814	4.39336	1.20770	1.50000	2.13233	0.22359	1.41690	11.92202	
2009	0.98104	-	0.98104	4.06952	1.09772	1.50000	1.96268	0.19700	1.30422	11.11218	
2010	1.15290	-	1.15290	4.80855	1.28499	1.50000	2.22253	0.21597	1.42678	12.61172	
2011	1.36485	-	1.36485	5.38692	1.33816	1.00000	2.27990	0.22366	1.53711	13.13060	

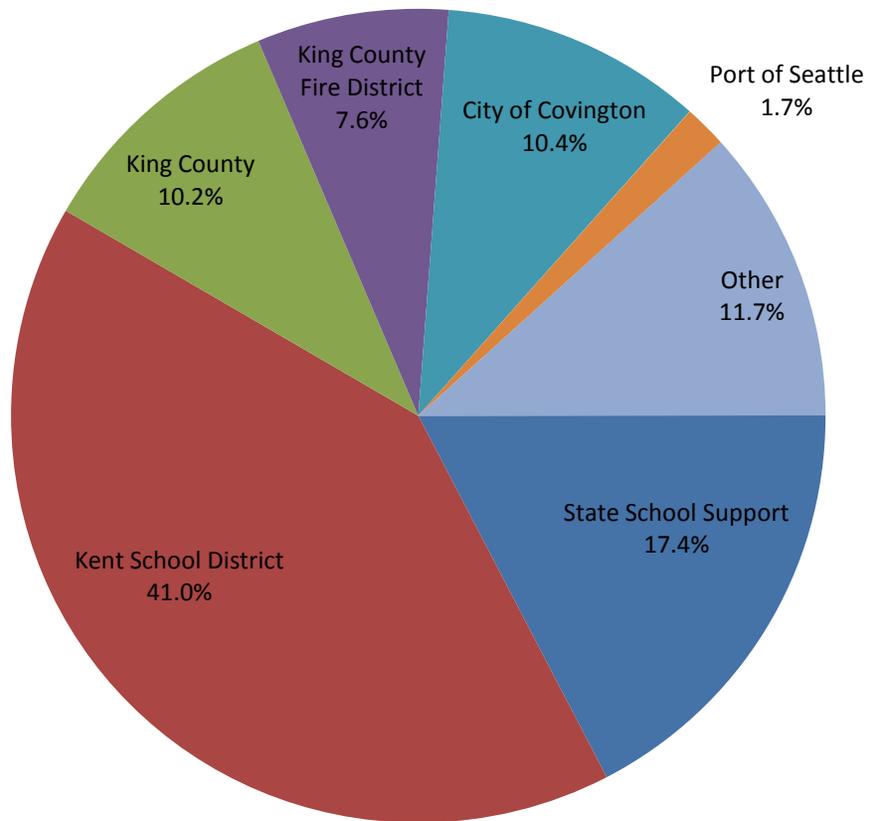
Note:

1) The maximum regular tax levy available to the City of Covington is \$1.60. Washington State Constitution and Washington State Law, RCW 84.55.010 limit the rate.

Sources:

King County Assessor

2011 Property Tax Allocation by Taxing Districts



City of Covington
Principal Property Tax Payers
Current Year and Nine Years Ago (Note 1, 2)

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

Notes:

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

(2) FY2011 data was not available at the time of publication.

Sources:

King County Assessor

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

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Collected within the Fiscal Year of the Levy</u>		<u>Collected in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage</u>		<u>Amount</u>	<u>Taxes</u>
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%	89,398	1,526,184	100.00%
2005	1,656,389	1,625,344	98.13%	31,045	1,656,389	100.00%
2006	1,804,737	1,797,407	99.59%	7,279	1,804,686	100.00%
2007	1,912,859	1,873,816	97.96%	38,967	1,912,783	100.00%
2008	1,976,869	1,935,004	97.88%	40,780	1,975,784	99.95%
2009	2,070,064	2,014,728	97.33%	50,530	2,065,258	99.77%
2010	2,093,086	2,008,300	95.95%	75,391	2,083,691	99.55%
2011	1,731,739	1,643,000	94.88%	-	1,643,000	94.88%

Sources:

King County Assessor

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

Governmental Activities

Fiscal Year	General Obligation Bonds	Special Assessment Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income (Note 1)	Per Capita (Note 1)
2002	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -
2003	-	-	-	-	0.00%	-
2004	-	460,100	-	460,100	0.06%	30.29
2005	-	460,100	-	460,100	0.06%	27.09
2006	-	431,587	-	431,587	0.05%	25.03
2007	12,555,148	352,160	-	12,907,308	1.30%	750.86
2008	12,822,064	176,758	-	12,998,822	1.29%	748.78
2009	12,819,431	149,557	-	12,968,988	1.30%	739.82
2010	12,600,535	114,236	-	12,714,771	1.31%	720.79
2011	12,090,982	-	-	12,090,982	*	*

Note 1: See the Schedule of Demographic and Economic Statistics on page 100 for personal income and population data.

* Data not available at time of publication

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

Fiscal Year	General	Less: Amounts			Percentage of	
	Obligation	Available in Debt	Total		Estimated Actual	Per Capita
	Bonds	Service Fund			Taxable Value of	(Note 2)
					Property (Note1)	
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	12,819,431	-	12,819,431		0.60%	731.29
2010	12,600,535	-	12,600,535		0.69%	714.32
2011	12,090,982	-	12,090,982		0.70%	685.43

Note 1: See the Schedule of Assessed and Estimated Value of Taxable Property on page 90 for property value data.

Note 2: See the Schedule of Demographic and Economic Statistics on page 100 for population data.

City of Covington
Computation of Direct and Overlapping Debt
December 31, 2011

<u>Jurisdiction</u>	<u>Net General Obligation Debt Outstanding (Note 1)</u>	<u>Percentage Applicable to Covington (Note 2)</u>	<u>Estimated Amount Applicable to Covington</u>
Direct:			
City of Covington	\$ 12,090,982	100.00%	\$ 12,090,982
Overlapping:			
King County	924,690,136	0.50%	4,623,451
King County Library	123,116,633	0.79%	972,621
Port of Seattle	336,120,000	0.50%	1,680,600
Hospital District #1	33,932,240	4.70%	1,594,815
Kent Regional Fire Authority #62	-	10.57%	-
Tahoma School District #409	25,082,736	0.00%	1,003
Kent School District #415	<u>206,038,741</u>	9.43%	<u>19,429,453</u>
Total Overlapping Debt	<u>1,648,980,486</u>		<u>28,301,943</u>
Total Direct and Overlapping Debt	<u>\$ 1,661,071,468</u>		<u>\$ 40,392,925</u>

Note 1: Total general obligation bonds outstanding on December 31, 2011 exclusive of refunded bonds. Source: King County

Note 2: Determined by ratio of 2011 assessed valuation of property subject to taxation in overlapping unit to valuation of property subject to taxation in reporting unit.

City of Covington
Legal Debt Margin Calculation
December 31, 2011

		<u>\$ 1,728,896,039</u>
		Remaining Debt Capacity
1	2.5% general purposes limit is allocated between:	\$ 43,222,401
2	Up to 1.5% debt without a vote (councilmanic)	\$ 25,933,441
3	Less: outstanding debt	\$ 14,293,439
4	Less: excess of debt with vote	\$ -
5	Add: available assets	\$ 1,738,396
6	Equals: remaining debt capacity without vote	<u>\$ 13,378,398</u>
7	1% general purposes debt with a vote	\$ 17,288,960
8	Less: outstanding debt	\$ -
9	Less: contracts payable	\$ -
10	Add: available assets	\$ -
11	Equals: remaining debt capacity with a vote	<u>\$ 17,288,960</u>
12	2.5% utility purpose limit, voted	\$ 43,222,401
13	Less: outstanding debt	\$ -
14	Less: contracts payable	\$ -
15	Add: available assets	\$ -
16	Equals: remaining debt capacity - utility purpose, voted	<u>\$ 43,222,401</u>
17	2.5% open space, park and capital facilities , voted	\$ 43,222,401
18	Less: outstanding debt	\$ -
19	Less: contracts payable	\$ -
20	Add: available assets	\$ -
21	Equals: remaining debt capacity - open space, park and capital facilities, voted	<u>\$ 43,222,401</u>

Sources:

Materials prepared for State Schedule 10 - Summary of Limitation of Indebtedness for year ending 12/31/11
In accordance with State of Washington RCW 39.36.60, does not include DCTED Public Work Trust Fund Loans.

City of Covington
Pledged-Revenue Coverage
Last Ten Fiscal Years

Special Assessment Bonds				
Fiscal Year	Special	Debt Service		Coverage
	Assessment	Principal	Interest	
	Collections			
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
2011	39,650	51,340	5,483	7.23

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

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			
2002	\$ 14,395	\$ 44,313	\$ 637,885,635	32	26,694	6.1%
2003	14,850	44,482	660,557,700	32	26,860	6.2%
2004	15,190	49,286	748,654,340	32	27,293	5.2%
2005	16,985	48,216	818,948,760	32	27,269	4.7%
2006	17,240	52,655	907,772,200	32	26,996	4.2%
2007	17,190	57,710	992,034,900	32	27,462	3.6%
2008	17,360	58,141	1,009,327,760	32	26,764	4.4%
2009	17,530	56,904	997,527,120	32	27,444	8.6%
2010	17,640	55,136	972,599,040	34	26,721	9.1%
2011	17,640	*	*	*	27,200	8.1%

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.

City of Covington
Principal Employers by Major Industry
Current Year and Nine Years Ago (Note 1, 2)

Type of Industry	2010			2001		
	Number of Employees	Rank	Percentage of Total Employment	Number of Employees	Rank	Percentage of Total Employment
Trade, Transportation, and Utilities	206,675	1	18.31%	236,250	1	20.20%
Professional and Business Services	176,558	2	15.65%	174,142	2	14.89%
Government	165,858	3	14.70%	158,008	3	13.51%
Educational and Health Services	138,192	4	12.25%	111,150	5	9.51%
Leisure and Health Services	107,550	5	9.53%	101,892	6	8.71%
Manufacturing	98,083	6	8.69%	131,900	4	11.28%
Information	79,408	7	7.04%	72,642	8	6.21%
Financial Activities	65,558	8	5.81%	78,508	7	6.71%
Construction	<u>49,617</u>	9	<u>4.40%</u>	<u>64,775</u>	9	<u>5.54%</u>
Total	<u>1,087,499</u>		<u>96.37%</u>	<u>1,129,267</u>		<u>96.57%</u>
Total Employment	<u>1,128,492</u>			<u>1,169,358</u>		

Note 1: FY2011 data was not available at the time of publication.

Note 2: Estimates are for King County, in which Covington is located. Covington data is not available.

Sources:

2010 King County Comprehensive Annual Financial Report

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

	<u>2011</u>	<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>
Function										
General Government	13	13	13	13	12	12	14	9	8	8
Community Development	6	10	16	16	15	15	4	15	12	7
Public Safety (Note 1)	-	-	-	-	-	-	-	-	-	-
Highways and Streets	10	13	14	14	11	11	5	5	5	4
Culture and Recreation	<u>10</u>	<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>
Total	<u>39</u>	<u>46</u>	<u>52</u>	<u>52</u>	<u>46</u>	<u>46</u>	<u>36</u>	<u>33</u>	<u>29</u>	<u>20</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.

City of Covington
Operating Indicators by Function
Last Ten Fiscal Years

	<u>2011</u>	<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>
Function										
City Manager (Note 1)										
Citizen Action Requests	194	275	281	268	347	401	N/A	N/A	N/A	N/A
Community Room Rentals	141	160	295	283	230	232	N/A	N/A	N/A	N/A
Contacts by Citizens (Phone and Walk-in)	11,894	11,279	13,088	15,116	12,984	12,014	N/A	N/A	N/A	N/A
Finance (Note 1)										
AP Checks Processed	1,738	1,794	1,758	1,758	1,600	1,829	1,689	1,513	1,397	N/A
AP Invoices Processed	2,797	2,931	2,994	2,994	2,638	2,982	2,339	2,290	2,171	N/A
AP \$ (in Millions)	7	10	20	20	17	10	6	8	8	N/A
AR Invoices/Statements Processed	838	753	751	751	902	1,020	826	624	493	N/A
Payroll Checks Processed	2,007	1,976	2,201	2,201	1,950	1,900	1,787	1,211	1,012	N/A
City Clerk (Note 1)										
Public Disclosure Requests	85	88	97	255	288	255	205	N/A	N/A	N/A
Covington Connection E-mails Received	78	116	178	186	243	219	194	N/A	N/A	N/A
Media Pitches (fka Press Reelases)	36	57	40	71	62	47	59	N/A	N/A	N/A
Contracts/Agreements	61	45	63	66	35	93	64	N/A	N/A	N/A
Ordinances/Resolutions Passed	32	49	38	49	65	130	113	N/A	N/A	N/A
Community Development										
No. of Permits Issued	122	115	131	209	225	135	207	387	455	282
Estimated Value (in Millions)	39	15	8	49	89	25	36	78	93	69
Public Safety (Note 2)										
No. of Calls for Service	3,803	4,196	4,135	4,026	3,837	4,098	3,982	3,720	3,429	3,429
Reported Crimes	1,418	1,638	1,311	1,631	1,591	1,385	1,338	1,292	1,246	1,137
Traffic Citations	5,925	1,170	1,470	1,451	1,795	1,956	1,776	970	1,252	1,158
No. of Arrests										
Adults	578	602	585	403	418	368	356	289	376	300
Juveniles	80	114	148	117	86	122	141	145	139	108
Culture and Recreation (Note 3, 4)										
Number of Parks	5	5	5	5	5	5	4	4	2	-
Park Acreage	135	135	135	135	135	135	135	135	109	39
Participants at Recreation Swims	20,527	22,068	18,949	21,920	15,351	33,684	32,838	-	-	-
Participants in Aquatic Activities	36,135	37,657	37,235	36,437	35,576	39,064	33,787	-	-	-
Aquatic Center Rental Hours	1,227	1,395	1,271	1,235	1,125	1,211	1,229	-	-	-
In-Water Attendance	81,197	87,620	81,599	83,057	73,427	96,958	91,195	-	-	-
Public Works (Note 1)										
Catch Basins Cleaned	184	956	2,265	2,265	2,100	1,841	N/A	N/A	N/A	N/A
Slope Mowing Miles	24	37	210	96	48	71	N/A	N/A	N/A	N/A
Landscape Mowing Miles	78	100	71	65	86	22	N/A	N/A	N/A	N/A
Miles of Streets Swept	843	2,274	2,054	2,290	1,192	1,754	N/A	N/A	N/A	N/A
Tons of Asphalt Used	269	58	95	100	94	155	N/A	N/A	N/A	N/A
Work Orders Completed	1,460	1,519	1,461	1,368	1,267	656	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.

City of Covington
Capital Assets by Function
Last Ten Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Function										
Culture and Recreation										
Number of Parks	5	5	5	5	5	5	4	4	2	-
Park Acreage	135	135	135	135	135	135	135	135	109	39
Swimming Pools	1	1	1	1	1	1	1	1	-	-
Vehicles	13	14	12	14	14	12	8	8	7	6

Sources:

City of Covington Parks and Public Works Departments