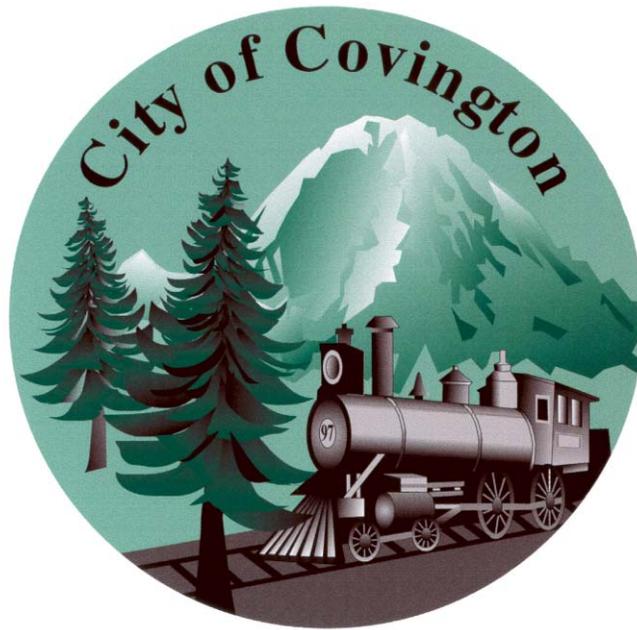


*The City of*  
**COVINGTON**  
WASHINGTON



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2013**

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**



## **CITY OF COVINGTON, WASHINGTON**

**FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2013**

**SUBMITTED BY THE  
FINANCE DEPARTMENT**

ROB HENDRICKSON, FINANCE DIRECTOR

CASEY PARKER, SENIOR ACCOUNTANT

LINDSAY HAGEN, ACCOUNTANT I

STACI CLES, ACCOUNTING CLERK

**CITY OF COVINGTON  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

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# **INTRODUCTORY**



## City of Covington

16720 SE 271<sup>st</sup> Street, Suite 100 • Covington, WA 98042 • (253) 480-2400 • Fax: (253) 480-2401

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August 18, 2014

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, 2013. 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 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, 2013, 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, 2013, had an estimated population of 18,100. 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 a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City of Covington can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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 (enterprise and 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 June when departments begin developing requests for appropriations. In August those requests are submitted to finance and the city manager. 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 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, major special revenue fund, and major capital project funds, this comparison is presented in the basic financial statements for the governmental funds. For the other governmental funds, internal service funds, and enterprise fund, 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 21 of this report.

### **Local Economy**

The City ended 2013 on a high note. Three of the City's four main revenues were higher than 2012. Sales tax collections came in at their highest level since incorporation. In year over year comparisons, retail sales increased by 4.6%, construction increased 16.7%, food services were up 2.6%, and the all other categories increased 9.3%.

Utility tax collections exceeded 2012 by \$55,707 which was 96.3% of budget.

Real estate excise tax (REET) came in at \$544,516 or 150.0% of the \$363,000 budget - much higher than forecast which helps take pressure off the general fund which is the major support of the debt service payment of the 2007 transportation bonds. There were 161 new home sales, 221 existing home sales, seven land only sales and three buildings and one commercial sale through December.

Property taxes came in lower due to a large refund to a major tax holder early in the year. This however, will be made up in 2014.

Commercially, the City picked up over thirty new businesses in 2013. While not all contribute to the sales tax base, they provide jobs in the community.

### **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:*** Construction was completed in June 2013 for Phase I of the City’s first major park which includes a soccer field, parking lot, restrooms, and over a mile of trails. Phases II and III are expected to be at 60% design in 2014.

***Town Center Project:*** Progress is moving forward on the establishment of the Covington Town Center as a vibrant residential, commercial, educational, social, and cultural gathering place that is safe, pedestrian-friendly, well-designed, and well-maintained.

***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 185<sup>th</sup> Place SE. This project will include 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, 2012. 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 GAAP 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 – senior accountant, Lindsay Hagen – accountant, 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 stewardship of the financial operations of the City in a sound and prudent manner.

Respectfully submitted,



Robert M. Hendrickson  
Finance Director

# CITY OF COVINGTON CITY COUNCIL



**Mayor Margaret Harto**  
**Position 3**  
**Term Expiration 12/31/15**



**Marla Mhoon**  
**Position 1**  
**Term Expiration 12/31/15**



**Mark Lanza**  
**Position 2**  
**Term Expiration 12/31/17**



**Joseph Cimaomo, Jr.**  
**Position 4**  
**Term Expiration 12/31/17**



**Wayne Snoey**  
**Position 5**  
**Term Expiration 12/31/15**



**Jim Scott**  
**Position 6**  
**Term Expiration 12/31/17**



**Mayor Pro Tem Jeff Wagner**  
**Position 7**  
**Term Expiration 12/31/15**

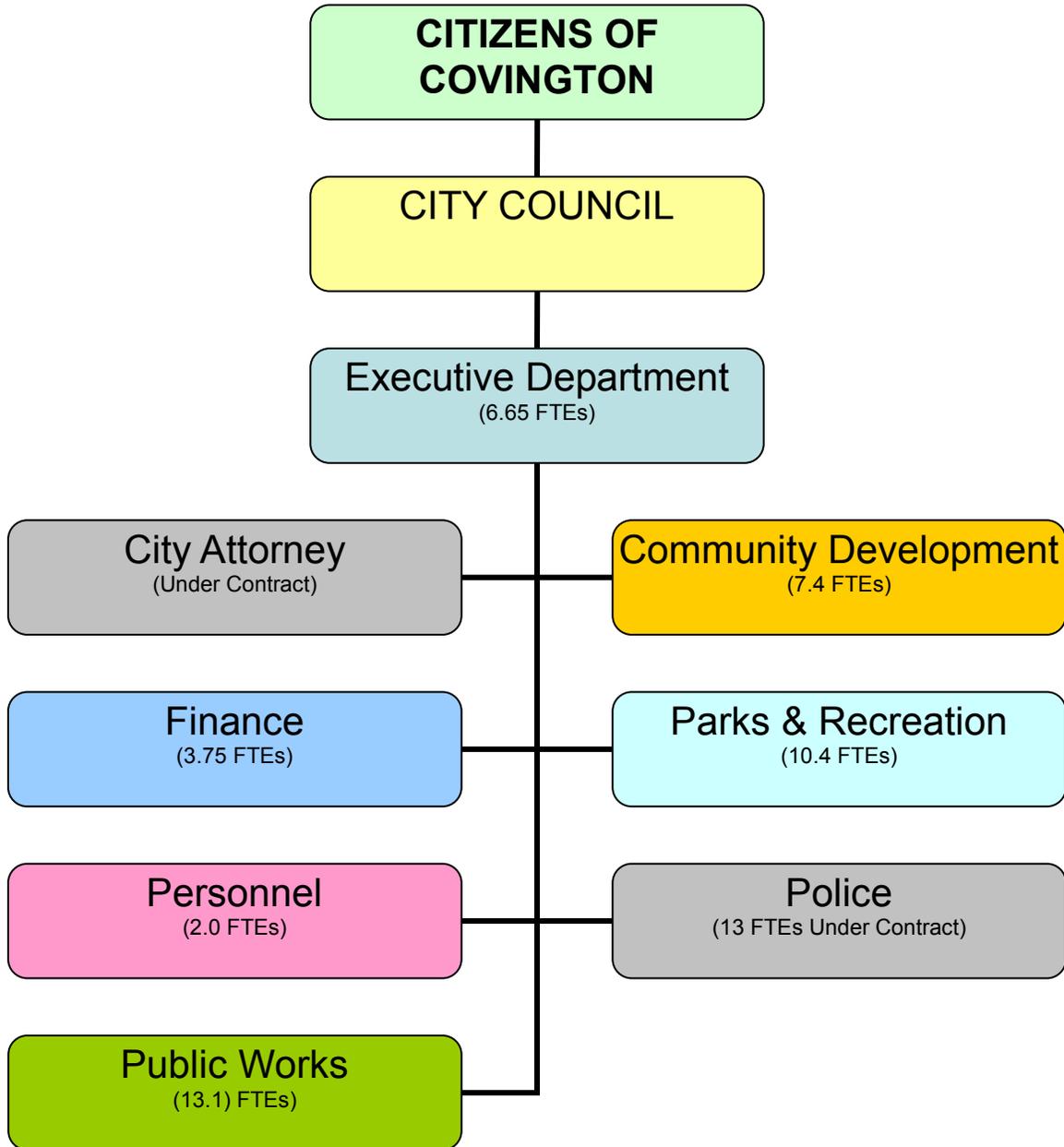
## **CITY MANAGER** **DEREK MATHESON**

### **FINANCE DEPARTMENT STAFF**

ROB HENDRICKSON  
CASEY PARKER  
LINDSAY HAGEN  
STACI CLES

FINANCE DIRECTOR  
SENIOR ACCOUNTANT  
ACCOUNTANT I  
ACCOUNTING CLERK

~ **CITY OF COVINGTON** ~  
**ORGANIZATION CHART by FUNCTION**  
January 2013





Government Finance Officers Association

**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, 2012**

Executive Director/CEO

**FINANCIAL**

# City of Covington

## Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2013



# Washington State Auditor Troy Kelley

## INDEPENDENT AUDITOR'S REPORT

August 18, 2014

Mayor and City Council  
City of Covington  
Covington, Washington

### ***REPORT ON FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the governmental activities, the business-type 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Covington, King County, Washington, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Development Services and Parks funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Matters of Emphasis***

As described in Note 1, during the year ended December 31, 2013, the City has implemented the Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, Statement No. 69, Government Combinations and Disposals of Government Operations and Statement No. 70, Non-exchange Financial Guarantees. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted 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 64 through 83 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.

### ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we will also issue our report dated August 18, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
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, 2013. 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 4 of this report.

### Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities on December 31, 2013 by \$55,150,280 (net position). Of the total net position, \$11,246,992 is unrestricted and may be used to meet any of the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$2,269,978. A significant portion of this increase is due to capital asset infrastructure.
- As of December 31, 2013, the City's governmental funds reported a combined ending fund balance of \$10,671,028. Of this, \$5,916,756 is in the General Fund, \$1,891,229 is in the Development Services Fund, \$301,478 is in the Parks Fund, \$260 is in the Local Improvement District 99-01 Fund, and \$2,093,439 is in the Capital Investment Program Fund. The remainder, \$467,866, is in other governmental funds.
- As of December 31, 2013, the unassigned portion of the General Fund's fund balance is \$5,665,787. Per GASB 54, this classification has changed since 2010 and now includes unassigned fund balance from the Contingency Fund, Cumulative Reserve Fund, and restricted fund balance from Real Estate Excise Tax 1<sup>st</sup> ¼% Fund, and Real Estate Excise Tax 2<sup>nd</sup> ¼% Fund.
- As of December 31, 2013, the City's business-type activities reported a total net position of \$7,838,897. This is a new category effective for the 2012 fiscal year. Previously, this had been reported as part of the governmental funds.

### 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 Position* 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 position.

The *Statement of Net Position* presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or

decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

The business-type activity of the City includes the following:

- ✓ Surface water management includes the maintenance and operation of storm water treatment facilities and related infrastructure.

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 23 to 24 of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Covington, like other 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 focus on near-term inflows and outflows of spendable resources, as well as on balances. This measurement focus aims to report the near-term (current) inflows, outflows, and of spendable resources available at the end of the fiscal year. 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 twelve individual governmental funds. Information is presented in separate columns for six of the twelve 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 the General Fund, Development Services Fund, Parks Fund, Long-term Debt Service Fund, Local Improvement District 99-01 Fund, and the Capital Investment Program Fund. Data from two funds, which include the Street Fund and the Local Improvement District 99-01 Guaranty 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 non-major governmental funds is provided in the form of combining statements elsewhere in this report. Four remaining funds, the Contingency Fund, Cumulative Reserve Fund, Real Estate Excise Tax 1<sup>st</sup> 1/4% Fund, and Real Estate Excise Tax 2<sup>nd</sup> 1/4% 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 non-major 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 uses an enterprise fund to account for its Surface Water Management Fund.

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 both the City's governmental activities and business activities, they have been included within the governmental activities and business-type activities columns in the government-wide financial statements where appropriate. 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.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the

Surface Water Management Fund which is considered to be a major fund in the City. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The basic proprietary fund financial statements can be found on pages 31 to 32 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 34 to 61 of this report.

*Other Information.* The combining statements referred to earlier in connection with the non-major 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 84.

### Government-wide Overall Financial Analysis

*Statement of Net Position.* As stated earlier, net position may serve over time as a useful indicator of the City's financial position. As of December 31, 2013, the City's total net position is \$55,150,280. Shown below is a breakdown of the City's net position by category.

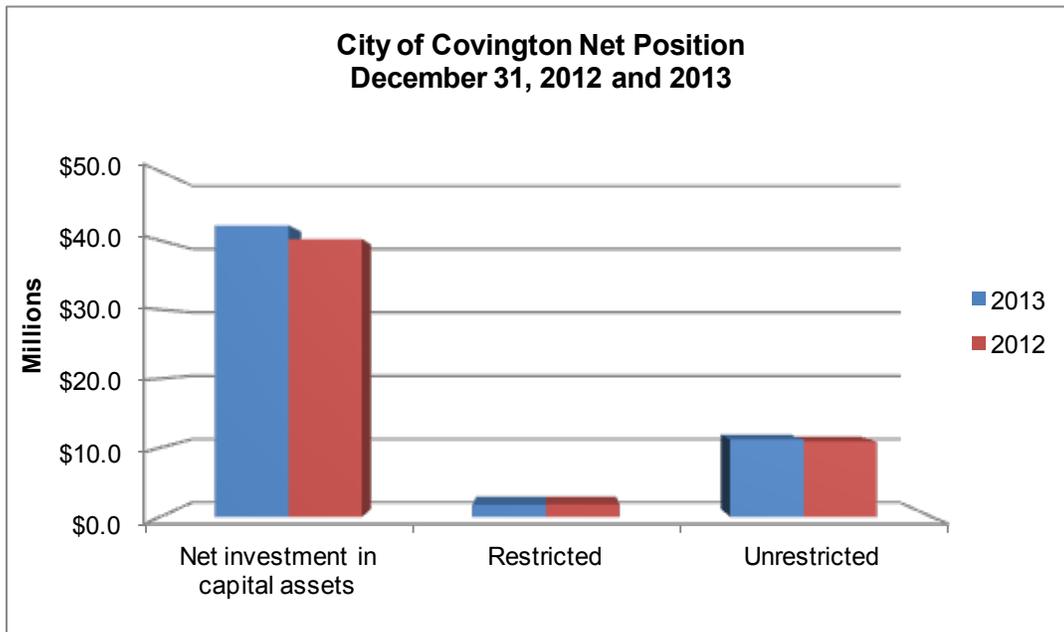
	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 12,124,061	\$ 12,022,105	\$ 2,410,573	\$ 2,419,388	\$ 14,534,634	\$ 14,441,493
Capital assets	<u>49,942,225</u>	<u>48,834,467</u>	<u>5,560,564</u>	<u>5,508,168</u>	<u>55,502,789</u>	<u>54,342,635</u>
Total assets	<u>62,066,286</u>	<u>60,856,572</u>	<u>7,971,137</u>	<u>7,927,556</u>	<u>70,037,423</u>	<u>68,784,128</u>
Long-term liabilities outstanding	13,752,513	14,553,320	74,262	79,228	13,826,775	14,632,548
Other liabilities	<u>1,002,390</u>	<u>997,371</u>	<u>57,978</u>	<u>70,785</u>	<u>1,060,368</u>	<u>1,068,156</u>
Total liabilities	<u>14,754,903</u>	<u>15,550,691</u>	<u>132,240</u>	<u>150,013</u>	<u>14,887,143</u>	<u>15,700,704</u>
Net position:						
Net investment in capital assets	36,588,574	34,671,899	5,560,564	5,508,168	42,149,138	40,180,067
Restricted	1,754,150	1,803,923	-	-	1,754,150	1,803,923
Unrestricted	<u>8,968,659</u>	<u>8,626,937</u>	<u>2,278,333</u>	<u>2,269,375</u>	<u>11,246,992</u>	<u>10,896,312</u>
Total net position	<u>\$ 47,311,383</u>	<u>\$ 45,102,759</u>	<u>\$ 7,838,897</u>	<u>\$ 7,777,543</u>	<u>\$ 55,150,280</u>	<u>\$ 52,880,302</u>

Overall the City's financial position has improved. The City's net position increased \$2,269,978 during the current fiscal year. A significant portion of this increase is due to an increase in capital assets.

Of the total net position, \$42,149,138 reflects the City's net investment in capital assets and accumulated depreciation. The City uses these capital assets to provide a variety of 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 76.4% (\$42,149,138) of the total net position. 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 position, \$1,754,150 (3.2%) represents resources that are subject to external restrictions on how they may be used, as well as debt service reserves. The remaining balance of unrestricted net position, \$11,246,992 (20.4%), may be used to meet the City’s ongoing obligations to citizens and creditors.



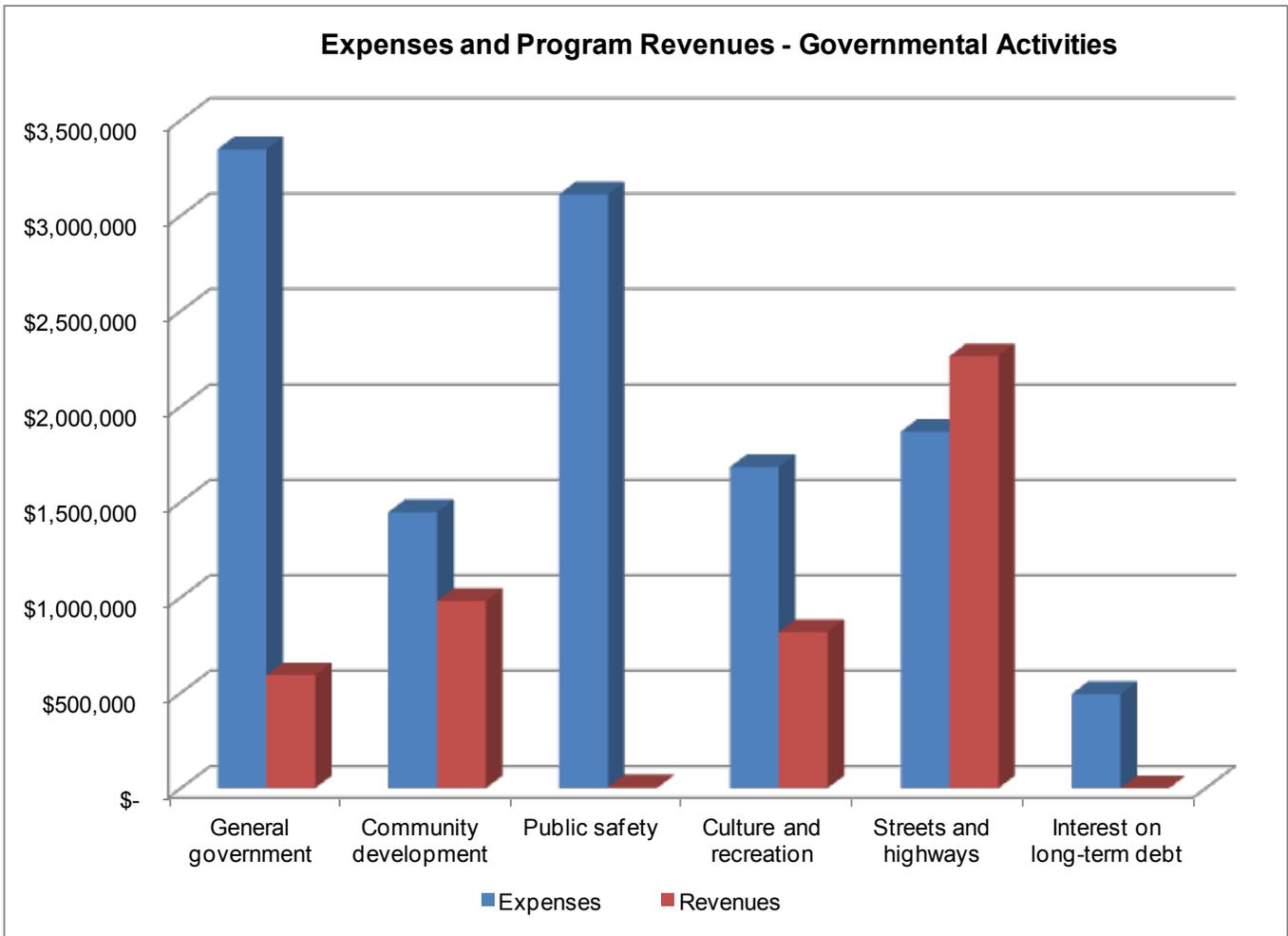
**Governmental Activities.** During the current fiscal year, net position for governmental activities increased \$2,208,624 from the prior fiscal year for an ending net position of \$47,311,383. Total revenues increased by \$1,814,236 and expenses decreased by \$755,649.

**Business-type Activities.** Revenue for 2013 is \$1,787,774 which is an increase of \$320,514 over 2012 while expenses are \$1,712,481 - an increase of \$143,497. Transfers from internal activities are \$122,528 which brings an increase in net position of \$197,821. With a prior period adjustment of \$(136,467) the final net position is \$7,838,897.

See page 61 of the Notes to the Financial Statements for more details about the prior period adjustment.

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

	City of Covington's Changes in Net Position					
	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 2,228,287	\$ 2,533,167	\$ 1,727,845	\$ 1,740,142	\$ 3,956,132	\$ 4,273,309
Operating grants and contributions	464,023	498,197	29,726	60,225	493,749	558,422
Capital grants and contributions	1,967,136	3,555,983	26,887	349,313	1,994,023	3,905,296
General revenues:						
Property taxes	2,283,558	2,362,314	-	-	2,283,558	2,362,314
Sales taxes	3,348,925	3,226,215	-	-	3,348,925	3,226,215
Utility tax	2,060,534	2,004,827	-	-	2,060,534	2,004,827
Other taxes	1,247,865	1,140,053	-	-	1,247,865	1,140,053
Other intergovernmental	235,384	268,811	-	-	235,384	268,811
Other	102,333	162,714	3,316	(682,420)	105,649	(519,706)
Total revenues	<u>13,938,045</u>	<u>15,752,281</u>	<u>1,787,774</u>	<u>1,467,260</u>	<u>15,725,819</u>	<u>17,219,541</u>
Expenses:						
General government	3,346,797	3,285,987	-	-	3,346,797	3,285,987
Community development	1,445,728	1,147,440	-	-	1,445,728	1,147,440
Public safety	3,111,381	2,919,182	-	-	3,111,381	2,919,182
Culture and recreation	1,682,194	1,339,704	-	-	1,682,194	1,339,704
Streets and highways	1,867,457	1,974,551	-	-	1,867,457	1,974,551
Interest on long-term debt	492,925	523,969	-	-	492,925	523,969
Surface water management	-	-	1,712,481	1,568,984	1,712,481	1,568,984
Total expenses	<u>11,946,482</u>	<u>11,190,833</u>	<u>1,712,481</u>	<u>1,568,984</u>	<u>13,658,963</u>	<u>12,759,817</u>
Increase in net position before transfers	1,991,563	4,561,448	75,293	(101,724)	2,066,856	4,459,724
Transfers - internal activities	(122,528)	(537,117)	122,528	537,117	-	-
Increase in net position	1,869,035	4,024,331	197,821	435,393	2,066,856	4,459,724
Net position, January 1	45,102,759	47,899,811	7,777,543	-	52,880,302	47,899,811
Prior period adjustment	339,589	520,767	(136,467)	-	203,122	520,767
Change in accounting principle	-	(7,342,150)	-	7,342,150	-	-
Net position, December 31	<u>\$47,311,383</u>	<u>\$45,102,759</u>	<u>\$7,838,897</u>	<u>\$7,777,543</u>	<u>\$55,150,280</u>	<u>\$52,880,302</u>



Property taxes decreased by \$78,756 (-3.3%) over fiscal year 2012. The decrease is due in part to a successful property value appeal by MultiCare Hospital which resulted in a substantial refund. The City property tax rate per \$1,000 of assessed value increased from \$1.4809 in 2012 to \$1.5476 for 2013 due primarily to a reduction in assessed valuation.

Sales tax revenue for 2013 increased by \$122,710 (3.8%) over fiscal year 2012. In year over year comparisons, retail sales increased by 4.6%, construction increased significantly by 16.7%, food services were up at 2.6%, and all other categories increased 9.3%.

Utility taxes increased by \$55,507 (2.8%) over fiscal year 2012. The slight increase can be attributed to weather related issues.

General government saw a decrease of \$60,810 (-1.8%) in expenses in 2013 over 2012. This was due primarily to a decrease in central services charges.

Community development saw an increase of \$298,288 (26.0%). The increase is attributable to increased work hours for staff due to increased workload and a professional services contract that will be reimbursed to the City.

Public safety saw an increase of \$192,199 (6.6%) due to an increase in the police contract.

Culture and recreation expenses saw a significant increase of \$342,490 (25.6%). This can be attributed to increased attendance at the Aquatics Center which resulted in increased labor and supply costs.

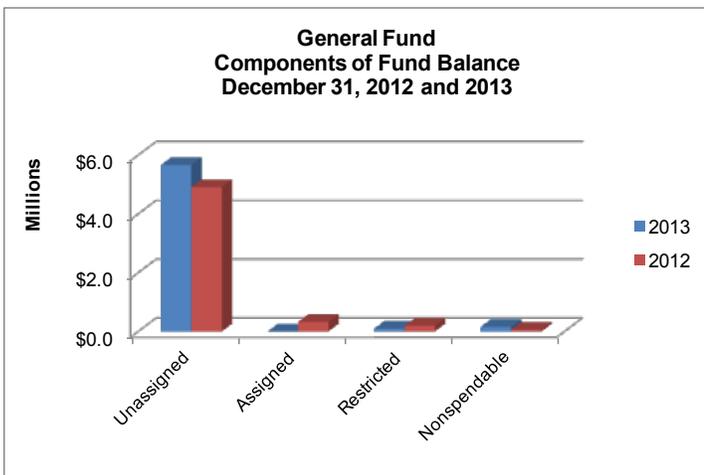
The expenses for streets and highways showed a decrease of \$107,094 (-5.4%) in 2013 over 2012. This decrease is due to a reduction in labor and supply costs.

Interest on long-term debt decreased as the City continued making payments on the outstanding long-term debt. See page 54 for a more detailed accounting of long-term debt.

### Financial Analysis of Governmental Funds

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

**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 may be a useful indicator of the City’s financial position. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City’s council.



As of December 31, 2013, the City of Covington’s governmental funds reported a combined ending fund balance of \$10,671,028 which is an increase of \$168,766 over 2012. Of the total fund balance, \$175,981 is non-spendable, \$1,778,069 is restricted, \$2,113,488 is committed, and \$937,703 is assigned. The balance, \$5,665,787 is unassigned and available for spending at the City’s discretion.

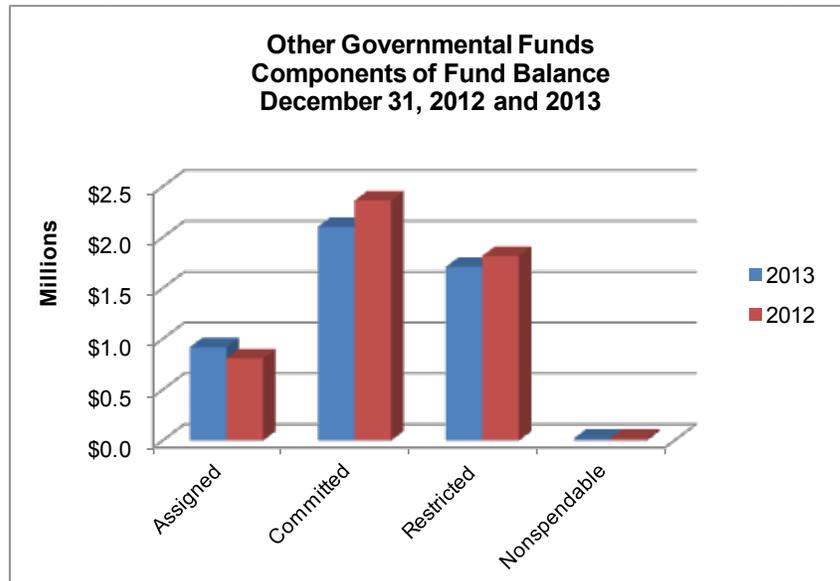
The General Fund is the chief operating fund of the City. For 2013, the *General Fund* fund balance increased by \$423,036 from \$5,493,720 in 2012 to \$5,916,756 for 2013. As a measure of the City’s liquidity, and also as a measure of its

ability to operate should revenues take a downturn or in emergencies, it may be useful to compare both unassigned fund balance and total fund balance to total General Fund expenditures. Unassigned fund balance represents approximately 80.5% of total General Fund expenditures, while total fund balance represents approximately 84.1% of total General Fund expenditures.

Excluding other funds which are captured in the General Fund as part of GASB 54 requirements, the General Fund increased in fund balance by \$520,179. Forecasted tax revenues came in over budget while management under spent 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 \$2,016,483 in 2012, decreased by \$125,254 to \$1,891,229 in 2013. The decrease is due to decreased permit activity in 2013. The number of single family permits issued in 2013 was 74 compared to 141 in 2012. There were zero commercial permits issued in 2013 compared to five in 2012.

The *Local Improvement District 99-01 Fund* is 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. The *Local Improvement District 99-01 Fund* fund balance, which was \$265 in 2012, decreased by \$5 to \$260 in 2013.



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 decreased \$106,833 from \$2,200,272 in 2012 to \$2,093,439 in 2013. The decrease is a result of projects being completed during the year.

**Proprietary Funds.** The City’s proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. The City’s proprietary fund is the Surface Water Management Fund. It is used to account for the maintenance and operation of storm water treatment facilities and related infrastructure.

The *Surface Water Management Fund’s* net position for 2013 is \$7,838,897 which is an increase of \$61,354 from 2012’s net position of \$7,777,543. This includes an unrestricted amount of \$2,278,333 and a net investment in capital assets of \$5,560,564.

**General Fund Budgetary Highlights**

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

**Original budget compared to final budget.** The 2013 General Fund budget amendment consisted of updating the estimated beginning fund balance to the actual beginning fund balance and adding grant revenue from the hazardous mitigation plan program.

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

Revenue source	Estimated revenues	Actual revenues	Difference
Taxes	7,345,140	7,551,751	206,611
Charges for goods and services	396,873	597,444	200,571

The increase in taxes was due primarily to in an increase in both sales tax and utility tax revenues. With regard to sales tax, the economy showed signs of recovery and retail sales contributed to record sales tax collections. Sales tax is allocated to the General Fund at 84% and the Parks Fund at 16%. Utility tax increased due to rate, weather, and population changes.

Charges for goods and services saw an increase that was primarily due to a professional services contract that will be reimbursed to the City.

### **Capital Assets**

As of December 31, 2013 the City's investment in capital assets is \$55,502,789 (net of depreciation), \$49,942,225 for governmental activities and \$5,560,564 for business-type activities.

Additional information regarding capital assets can be found in the notes to the financial statements on page 50.

### **Debt Administration**

As of December 31, 2013 the City's long-term bonded debt outstanding as of December 31, 2013 is \$13,752,513.

Additional information on long term-debt can be found in the notes to the financial statements on pages 54 to 68.

### **Summary**

With the Great Recession in the rearview mirror, the City is positioning itself to move forward with new and exciting decisions. The economy is not quite on stable ground yet but still we see enough forward progress that we are replacing pessimism with optimism. The City is embarking on a journey which will cement its future for years to come. The Budget Priorities Advisory Committee (BPAC) recommendations are moving forward, the town center project is unfolding, bringing higher education to Covington is just planting its seed, and the Covington Community Park is moving forward into phase 2 faster than expected. The City is also moving forward with design and property acquisition for SR 516 widening at Jenkins Creek. In addition, the Hawk property subarea plan continues and MultiCare Health System is expected to break ground on a Covington hospital within the next twelve months.

However, even with all that there are still some areas of concern with streets and parks. If the sales tax ballot measure succeeds (Proposition 1), streets will be in great shape as will the General Fund. If it fails then there are more tough decisions that have to be made. Parks, while breaking attendance records at the Aquatics Center, still relies heavily on the General Fund for support and this will not change. But as long as the General Fund can remain healthy then parks will be sustainable.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Covington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Covington, 16720 SE 271<sup>st</sup> Street, Suite 100, Covington, WA 98042.

# **BASIC FINANCIAL STATEMENTS**

City of Covington  
Statement of Net Position  
December 31, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 8,243,183	\$ 2,039,119	\$ 10,282,302
Deposit - Internal Fiscal Agency	-	-	-
Investments	1,924,286	199,773	2,124,059
Receivables (net of allowances for uncollectibles, where applicable):			
Accounts	348,958	-	348,958
Special Assessments	166,131	-	166,131
Interest	7,974	-	7,974
Property Taxes	50,902	-	50,902
Intergovernmental	1,182,873	106,385	1,289,258
Internal	241	56,202	56,443
Prepaid Items	175,981	9,094	185,075
Bond Issuance Costs (Net of Amortization)	23,532	-	23,532
Capital Assets Not Being Depreciated:			
Land	19,213,328	993,232	20,206,560
Intangible Assets	940,890	7,003	947,893
Work In Progress	1,284,851	294,235	1,579,086
Capital Assets Net of Depreciation:			
Buildings	554,574	9,848	564,422
Improvements Other than Buildings	245,771	5,152	250,923
Machinery and Equipment	404,693	36,802	441,495
Infrastructure	<u>27,298,118</u>	<u>4,214,292</u>	<u>31,512,410</u>
Total Assets	<u>62,066,286</u>	<u>7,971,137</u>	<u>70,037,423</u>
<b>Liabilities</b>			
Accounts Payable	288,014	18,853	306,867
Accrued Interest Payable	198,024	-	198,024
Accrued Payroll/Benefits	174,259	24,701	198,960
Due to Other Governmental Entities	134,884	14,183	149,067
Internal Payable	56,202	241	56,443
Unearned Revenue	151,007	-	151,007
Long-Term Liabilities			
Due Within One Year			
Compensated Absences	277,579	50,820	328,399
General Obligation Bonds	589,054	-	589,054
Other Long-Term Debt	214,896	-	214,896
Due in More Than One Year			
Compensated Absences	121,283	23,442	144,725
General Obligation Bonds	10,400,745	-	10,400,745
Other Long-Term Debt	<u>2,148,956</u>	<u>-</u>	<u>2,148,956</u>
Total Liabilities	<u>14,754,903</u>	<u>132,240</u>	<u>14,887,143</u>
<b>Net Position</b>			
Net Investment in Capital Assets	36,588,574	5,560,564	42,149,138
Restricted for:			
Debt Service	94,780	-	94,780
Capital Improvement Projects	1,659,370	-	1,659,370
Unrestricted	<u>8,968,659</u>	<u>2,278,333</u>	<u>11,246,992</u>
Total Net Position	<u>\$ 47,311,383</u>	<u>\$ 7,838,897</u>	<u>\$ 55,150,280</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, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General Government	\$ 3,346,797	\$ 499,888	\$ 91,650	\$ -	\$ (2,755,259)	\$ -	\$ (2,755,259)
Community Development	1,445,728	981,469	-	-	(464,259)	-	(464,259)
Public Safety	3,111,381	5,700	-	-	(3,105,681)	-	(3,105,681)
Culture and Recreation	1,682,194	728,148	2,600	86,842	(864,604)	-	(864,604)
Streets and Highways	1,867,457	13,082	369,773	1,880,294	395,692	-	395,692
Interest on Long Term Debt	492,925	-	-	-	(492,925)	-	(492,925)
Total Governmental Activities	<u>11,946,482</u>	<u>2,228,287</u>	<u>464,023</u>	<u>1,967,136</u>	<u>(7,287,036)</u>	<u>-</u>	<u>(7,287,036)</u>
<b>Business-type Activities:</b>							
Surface Water Management	1,712,481	1,727,845	29,726	26,887	-	71,977	71,977
Total Business-type Activities	<u>1,712,481</u>	<u>1,727,845</u>	<u>29,726</u>	<u>26,887</u>	<u>-</u>	<u>71,977</u>	<u>71,977</u>
Total Primary Government	<u>\$ 13,658,963</u>	<u>\$ 3,956,132</u>	<u>\$ 493,749</u>	<u>\$ 1,994,023</u>	<u>(7,287,036)</u>	<u>71,977</u>	<u>(7,215,059)</u>
<b>General Revenues:</b>							
Taxes:							
Property Tax					2,283,558	-	2,283,558
Sales Tax					3,348,925	-	3,348,925
Utility Tax					2,060,534	-	2,060,534
Local Criminal Justice					399,784	-	399,784
Real Estate Excise Tax					544,516	-	544,516
Franchise Fee (Taxes)					303,565	-	303,565
MVET-Criminal Justice					51,846	-	51,846
Liquor Board Profits					159,644	-	159,644
Liquor Excise Tax					23,894	-	23,894
Interest Income					17,993	3,316	21,309
Miscellaneous					84,340	-	84,340
Transfers - internal activities					(122,528)	122,528	-
Total General Revenues and Transfers					<u>9,156,071</u>	<u>125,844</u>	<u>9,281,915</u>
Change in Net Position					1,869,035	197,821	2,066,856
Net Position, January 1					<u>45,102,759</u>	<u>7,777,543</u>	<u>52,880,302</u>
Prior Period Adjustment					339,589	(136,467)	203,122
Net Position, December 31					<u>\$ 47,311,383</u>	<u>\$ 7,838,897</u>	<u>\$ 55,150,280</u>

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

City of Covington  
Balance Sheet  
Governmental Funds  
December 31, 2013

	Special Revenue Funds			Debt Service Fund	Capital Project Funds		Other Governmental Funds	Total Governmental Funds
	General	Development	Parks	Long-Term Debt Service	Local	Capital		
		Services			Improvement District 99-01	Investment Program		
<b>Assets and Other Debits</b>								
Cash and Cash Equivalents	\$ 3,603,469	\$ 1,485,513	\$ 253,984	\$ -	\$ 260	\$ 2,066,105	\$ 377,248	\$ 7,786,579
Deposit - Internal Fiscal Agency	-	-	-	-	-	-	-	-
Investments	1,509,075	415,211	-	-	-	-	-	1,924,286
Receivables (net of allowances for uncollectibles, where applicable):								
Accounts	268,550	4,150	8,166	-	-	-	68,092	348,958
Special Assessments	-	-	-	-	166,131	-	-	166,131
Interest	-	-	-	-	7,974	-	-	7,974
Property Taxes	50,902	-	-	-	-	-	-	50,902
Intergovernmental	694,570	10,414	105,596	-	-	309,823	59,926	1,180,329
Prepaid Items	156,449	6,288	8,266	-	-	-	4,978	175,981
Total Assets	<u>\$ 6,283,015</u>	<u>\$ 1,921,576</u>	<u>\$ 376,012</u>	<u>\$ -</u>	<u>\$ 174,365</u>	<u>\$ 2,375,928</u>	<u>\$ 510,244</u>	<u>\$ 11,641,140</u>
<b>Liabilities</b>								
Accounts Payable	\$ 139,365	\$ 1,665	\$ 23,130	\$ -	\$ -	\$ 98,905	\$ 20,125	\$ 283,190
Accrued Payroll/Benefits	81,057	28,023	47,179	-	-	1,869	16,131	174,259
Due to Other Funds	855	290	438	-	-	21	161	1,765
Due to Other Governmental Entities	94,080	369	3,787	-	-	30,687	5,961	134,884
Unearned Revenue	-	-	-	-	-	151,007	-	151,007
Total Liabilities	<u>315,357</u>	<u>30,347</u>	<u>74,534</u>	<u>-</u>	<u>-</u>	<u>282,489</u>	<u>42,378</u>	<u>745,105</u>
<b>Deferred Inflows of Resources</b>								
Unavailable Revenue - Property Taxes	50,902	-	-	-	-	-	-	50,902
Unavailable Revenue - Special Assessment	-	-	-	-	174,105	-	-	174,105
Total Deferred Inflows of Resources	<u>50,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>174,105</u>	<u>-</u>	<u>-</u>	<u>225,007</u>
<b>Fund Balances</b>								
Nonspendable	156,449	6,288	8,266	-	-	-	4,978	175,981
Restricted	94,520	-	-	-	260	1,683,289	-	1,778,069
Committed	-	1,756,447	293,212	-	-	63,829	-	2,113,488
Assigned	-	128,494	-	-	-	346,321	462,888	937,703
Unassigned	<u>5,665,787</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,665,787</u>
Total Fund Balances	<u>5,916,756</u>	<u>1,891,229</u>	<u>301,478</u>	<u>-</u>	<u>260</u>	<u>2,093,439</u>	<u>467,866</u>	<u>10,671,028</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 6,283,015</u>	<u>\$ 1,921,576</u>	<u>\$ 376,012</u>	<u>\$ -</u>	<u>\$ 174,365</u>	<u>\$ 2,375,928</u>	<u>\$ 510,244</u>	

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

Capital Assets used in governmental activities are not financial resources, and therefore are not reported in the governmental funds. Governmental Assets (\$53,891,451) are shown net of Accumulated Depreciation (\$4,350,351). Capital Assets are included in the Statement of Net Position. 49,541,100

Other long-term assets such as property tax receivable (\$50,902) and special assessment receivable (\$174,105) are not available to pay for current-period expenditures and, therefore, are unearned in the governmental funds. These amounts are included in the Statement of Net Position. 225,007

Long-term liabilities such as compensated absences (\$398,862), General Obligation Bond Payable (\$10,966,267), Public Works Trust Fund Loan (\$2,363,852), and Accrued Interest Payable (\$198,024) are not due and payable in the current period and, therefore, are not reported in the governmental funds. (13,927,005)

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 Position. 801,253

Net position of governmental activities \$ 47,311,383

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  
Governmental Funds  
For the Fiscal Year Ended December 31, 2013

	Special Revenue Funds			Debt Service Fund	Capital Project Funds		Other Governmental Funds	Totals Governmental Funds
	General	Development Services	Parks	Long-Term Debt Service	Local Improvement District 99-01	Capital Investment Program		
<b>Revenues</b>								
Taxes	\$ 8,096,267	\$ -	\$ 535,828	\$ -	\$ -	\$ -	\$ -	\$ 8,632,095
Licenses and Permits	37,500	588,022	-	-	-	-	266,065	891,587
Intergovernmental	327,034	-	30,098	-	-	359,823	369,773	1,086,728
Charges for Goods and Services	213,527	284,116	577,630	-	-	165,057	11,960	1,252,290
Fines and Forfeitures	122,836	408	-	-	-	-	-	123,244
Special Assessments	-	-	-	-	36,992	-	-	36,992
Interest Income	7,007	6,792	474	-	12	3,139	569	17,993
Interfund Services Payment	383,917	-	-	-	-	-	-	383,917
Miscellaneous	94,136	148	150,518	-	-	-	1,122	245,924
<b>Total Revenues</b>	<b>9,282,224</b>	<b>879,486</b>	<b>1,294,548</b>	<b>-</b>	<b>37,004</b>	<b>528,019</b>	<b>649,489</b>	<b>12,670,770</b>
<b>Expenditures</b>								
Current:								
General Government	3,321,727	-	-	-	-	-	-	3,321,727
Community Development	593,587	1,004,740	-	-	-	-	-	1,598,327
Public Safety	3,081,999	-	-	-	-	-	-	3,081,999
Culture and Recreation	-	-	1,596,138	-	-	-	-	1,596,138
Streets and Highways	-	-	-	-	-	-	848,136	848,136
Capital Outlay:								
General Government	12,442	-	-	-	-	-	-	12,442
Public Safety	29,382	-	-	-	-	-	-	29,382
Culture and Recreation	-	-	11,015	-	-	245,167	-	256,182
Streets and Highways	-	-	-	-	494	634,974	-	635,468
Debt Service:								
Principal	-	-	-	778,210	28,074	-	-	806,284
Interest	-	-	-	505,001	1,347	-	-	506,348
<b>Total Expenditures</b>	<b>7,039,137</b>	<b>1,004,740</b>	<b>1,607,153</b>	<b>1,283,211</b>	<b>29,915</b>	<b>880,141</b>	<b>848,136</b>	<b>12,692,433</b>
Excess (Deficiency) of Revenues Over Expenditures	2,243,087	(125,254)	(312,605)	(1,283,211)	7,089	(352,122)	(198,647)	(21,663)
<b>Other Financing Sources (Uses)</b>								
Transfers In	63,971	-	388,840	1,283,211	-	108,822	257,495	2,102,339
Transfers Out	(1,894,969)	-	(98,143)	-	(7,094)	-	(63,971)	(2,064,177)
Compensation from Loss of Assets	10,947	-	1,562	-	-	-	3,291	15,800
<b>Total Other Financing Sources (Uses)</b>	<b>(1,820,051)</b>	<b>-</b>	<b>292,259</b>	<b>1,283,211</b>	<b>(7,094)</b>	<b>108,822</b>	<b>196,815</b>	<b>53,962</b>
Net Change in Fund Balances	423,036	(125,254)	(20,346)	-	(5)	(243,300)	(1,832)	32,299
Fund Balances, January 1	5,493,720	2,016,483	321,824	-	265	2,200,272	469,698	10,502,262
Prior Period Adjustment (Note 13)	-	-	-	-	-	136,467	-	136,467
Fund Balances, December 31	\$ 5,916,756	\$ 1,891,229	\$ 301,478	\$ -	\$ 260	\$ 2,093,439	\$ 467,866	\$ 10,671,028

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

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, 2013

Amounts reported for Governmental Activities in the Statement of Activities (see page 24) are different because:

Net Change in Fund Balances - total Governmental funds (see page 26)	\$ 32,299
Governmental funds revenues are only reported when they provide current financial resources. However, in the Statement of Activities, revenues are recognized when earned.	(23,795)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position.	1,243,460
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 \$867,342 less current year depreciation of (\$1,151,005).	(283,663)
Governmental funds report bond insurance costs as expenditures. However, these amounts are reported on the Statement of Net Position as deferred charges and amortized over the life of the debt. Amortization of bond insurance costs (\$2,113).	(2,113)
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 (\$8,110).	(8,110)
Repayment of long-term debt is an expenditure in the governmental funds, yet, the repayment reduces long-term liabilities in the Statement of Net Position.	806,284
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 \$13,423. Amortization of bond premium \$2,633.	16,056
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.	35,027 <u>53,590</u>
Change in net position of governmental activities (see page 24)	<u>\$ 1,869,035</u>

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, 2013

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>Revenues</b>				
Taxes	\$ 7,345,140	\$ 7,345,140	\$ 7,551,751	\$ 206,611
Licenses and Permits	-	-	37,500	37,500
Intergovernmental	306,099	344,521	327,034	(17,487)
Charges for Goods and Services	396,873	396,873	597,444	200,571
Fines and Forfeitures	161,400	161,400	122,836	(38,564)
Interest Income	12,000	12,000	4,811	(7,189)
Miscellaneous	49,950	49,950	90,687	40,737
Total Revenues	<u>8,271,462</u>	<u>8,309,884</u>	<u>8,732,063</u>	<u>422,179</u>
<b>Expenditures</b>				
Current:				
General Government:				
City Council	430,511	430,511	435,074	4,563
Council Contingency	50,000	50,000	-	(50,000)
City Court	636,400	636,400	461,096	(175,304)
City Manager	983,671	983,671	979,339	(4,332)
Finance	538,128	538,128	530,720	(7,408)
City Attorney	75,000	75,000	68,289	(6,711)
Personnel	357,502	357,502	346,862	(10,640)
Solid Waste	-	-	691	691
Central Services	508,501	546,923	499,656	(47,267)
Total General Government	<u>3,579,713</u>	<u>3,618,135</u>	<u>3,321,727</u>	<u>(296,408)</u>
Community Development:				
Total Community Development	<u>334,541</u>	<u>334,541</u>	<u>593,587</u>	<u>259,046</u>
Public Safety:				
Total Public Safety	<u>3,099,675</u>	<u>3,099,675</u>	<u>3,081,999</u>	<u>(17,676)</u>
Capital Outlay:				
General Government	12,290	12,290	12,442	152
Public Safety	42,465	42,465	29,382	(13,083)
Total Expenditures	<u>7,068,684</u>	<u>7,107,106</u>	<u>7,039,137</u>	<u>(67,969)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,202,778</u>	<u>1,202,778</u>	<u>1,692,926</u>	<u>490,148</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	60,810	61,121	59,525	(1,596)
Transfers Out	(1,584,061)	(1,299,615)	(1,243,219)	56,396
Compensation Loss of Asset	-	-	10,947	10,947
Total Other Financing Sources (Uses)	<u>(1,523,251)</u>	<u>(1,238,494)</u>	<u>(1,172,747)</u>	<u>65,747</u>
Net Change in Fund Balances	(320,473)	(35,716)	520,179	555,895
Fund Balances, January 1	<u>3,191,576</u>	<u>3,506,626</u>	<u>3,506,626</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 2,871,103</u>	<u>\$ 3,470,910</u>	<u>\$ 4,026,805</u>	<u>\$ 555,895</u>

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, 2013

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>Revenues</b>				
Licenses and Permits	\$ 766,023	\$ 766,023	\$ 588,022	\$ (178,001)
Charges for Goods and Services	542,036	542,036	284,116	(257,920)
Fines and Forfeitures	1,350	1,350	408	(942)
Interest Income	1,300	1,300	6,792	5,492
Miscellaneous	-	-	148	148
Total Revenues	1,310,709	1,310,709	879,486	(431,223)
<b>Expenditures</b>				
Current:				
Community Development	1,028,058	1,028,058	1,004,740	(23,318)
Total Expenditures	1,028,058	1,028,058	1,004,740	(23,318)
Excess (Deficiency) of Revenues Over Expenditures	282,651	282,651	(125,254)	(407,905)
Fund Balances, January 1	1,431,422	2,016,483	2,016,483	-
Fund Balances, December 31	\$ 1,714,073	\$ 2,299,134	\$ 1,891,229	\$ (407,905)

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

City of Covington  
Parks Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2013

	Budget			Variance
	Original	Final	Actual	Over (Under)
<b>Revenues</b>				
Taxes	\$ 478,000	\$ 478,000	\$ 535,828	\$ 57,828
Intergovernmental	-	387,100	30,098	(357,002)
Charges for Goods and Services	457,930	457,930	577,630	119,700
Interest Income	200	200	474	274
Miscellaneous	116,960	116,960	150,518	33,558
Total Revenues	<u>1,053,090</u>	<u>1,440,190</u>	<u>1,294,548</u>	<u>(145,642)</u>
<b>Expenditures</b>				
Current:				
Culture and Recreation:				
Parks Maintenance	337,338	337,338	263,568	(73,770)
Aquatics	707,551	1,089,051	900,766	(188,285)
Recreation and Special Events	176,563	179,563	216,856	37,293
Parks Administration	251,717	254,317	214,948	(39,369)
Total Culture and Recreation	<u>1,473,169</u>	<u>1,860,269</u>	<u>1,596,138</u>	<u>(264,131)</u>
Capital Outlay:				
Culture and Recreation	13,000	13,000	11,015	(1,985)
Total Expenditures	<u>1,486,169</u>	<u>1,873,269</u>	<u>1,607,153</u>	<u>(266,116)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(433,079)</u>	<u>(433,079)</u>	<u>(312,605)</u>	<u>120,474</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	445,236	445,236	388,840	(56,396)
Transfers Out	(27,483)	(91,723)	(98,143)	(6,420)
Compensation from Loss of Assets	-	-	1,562	1,562
Total Other Financing Sources (Uses)	<u>417,753</u>	<u>353,513</u>	<u>292,259</u>	<u>(61,254)</u>
Net Change in Fund Balance	(15,326)	(79,566)	(20,346)	59,220
Fund Balances, January 1	<u>214,361</u>	<u>321,824</u>	<u>321,824</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 199,035</u>	<u>\$ 242,258</u>	<u>\$ 301,478</u>	<u>\$ 59,220</u>

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

City of Covington  
Statement of Net Position  
Proprietary Funds  
December 31, 2013

	Business-Type Activities	
	Enterprise Fund	Governmental
	Surface Water Management	Activities- Internal Service Funds
<b>Assets and other Debits</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,039,119	\$ 456,604
Investments	199,773	-
Receivables (net of allowances for uncollectibles, where applicable):		
Due from Other Funds	-	2,006
Intergovernmental	106,385	2,544
Prepaid Items	9,094	-
Total Current Assets	2,354,371	461,154
Noncurrent Assets:		
Capital Assets:		
Land	993,232	-
Intangible Assets	7,003	-
Work in Progress	294,235	-
Buildings	13,131	-
Improvements Other than Buildings	17,238	54,188
Machinery and Equipment	64,962	573,743
Infrastructure	4,787,918	-
Accumulated Depreciation	(617,155)	(226,806)
Total Capital Assets (net of accumulated depreciation)	5,560,564	401,125
Total Assets	7,914,935	862,279
<b>Deferred Outflows of Resources</b>		
Deferred Outflows of Resources	-	-
<b>Liabilities</b>		
Current Liabilities:		
Accounts Payable	18,853	4,824
Accrued Payroll/Benefits	24,701	-
Compensated Absences	50,820	-
Due to Other Funds	241	-
Due to Other Governmental Entities	14,183	-
Total Current Liabilities	108,798	4,824
Noncurrent Liabilities:		
Compensated Absences	23,442	-
Total NonCurrent Liabilities	23,442	-
Total Liabilities	132,240	4,824
<b>Deferred Inflows of Resources</b>		
Deferred Inflows of Resources	-	-
<b>Net Position</b>		
Net Investment in Capital Assets	5,560,564	401,125
Unrestricted	2,222,131	456,330
Total Net Position	\$ 7,782,695	\$ 857,455

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.

	56,202
Net position of business-type activities	\$ 7,838,897

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

City Of Covington  
Statement of Revenues, Expenses, and  
Changes in Net Position  
Proprietary Funds  
For the Fiscal Year Ended December 31, 2013

	<u>Business-Type Activities</u>	
	<u>Enterprise Fund</u>	Governmental
	Surface Water Management	Activities- Internal Service Funds
Operating Revenues:		
Surface Water Management Fees	\$ 1,721,848	\$ -
Grants	29,726	-
Insurance Recovery	3,123	-
Unemployment Charges	-	42,993
Fuel and Maintenance Assessments	-	33,686
Equipment Replacement Assessments	-	89,031
Miscellaneous	693	-
Total Operating Revenues	<u>1,755,390</u>	<u>165,710</u>
Operating Expenses:		
Cost of Services	1,563,518	-
Unemployment Benefits Paid	-	2,362
Vehicle Fuel	-	15,404
Repairs and Maintenance of Vehicles	-	18,282
Administration	-	1,491
Depreciation	160,485	50,826
Total Operating Expenses	<u>1,724,003</u>	<u>88,365</u>
Operating Income (Loss)	<u>31,387</u>	<u>77,345</u>
Nonoperating Revenues (Expenses)		
Intergovernmental	2,181	-
Grant Income	26,887	-
Interest Income	3,316	633
Interest Expense	(32,837)	-
Gain or (Loss) From Disposition of Assets	-	14,600
Total Nonoperating Revenues (Expenses)	<u>(453)</u>	<u>15,233</u>
Income Before Contributions and Transfers	30,934	92,578
Contributions and Transfers:		
Transfer Out	(38,162)	-
Capital Contributions from Capital Investment Project Fund	160,690	-
Capital Contributions from General Fund	-	29,383
Capital Contributions from Parks Fund	-	11,015
Total Contributions and Transfers	<u>122,528</u>	<u>40,398</u>
Change in Net Position	153,462	132,976
Net Position, January 1	<u>7,765,700</u>	<u>724,479</u>
Prior Period Adjustment (Note 13)	(136,467)	-
Net Position, December 31	<u>\$ 7,782,695</u>	<u>\$ 857,455</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.	<u>44,359</u>	
Change in net position of business-type activities	<u>\$ 197,821</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, 2013

	<u>Business-Type Activities</u>	
	Enterprise Fund	Governmental
	Surface Water Management	Activities- Internal Service Funds
<b>Cash Flows from Operating Activities</b>		
Cash Received from Interfund Services Provided	\$ -	\$ 165,425
Cash Received from Customers	1,751,467	-
Grant Income	9,940	-
Payments Made to Suppliers	(577,178)	(32,553)
Payments for Interfund Services Used	(421,254)	-
Payments Made to Employees	(565,462)	-
Cash Paid for Unemployment Assessments	-	(7,989)
Other Receipts (Payments)	<u>9,529</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>207,042</u>	<u>124,883</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Intergovernmental Revenue	44,149	-
Payments Made to Suppliers	(41,623)	-
Transfers to (from) Other Funds	(38,162)	-
Other Receipts (Payments)	<u>6,414</u>	<u>-</u>
Net Cash Provided by Noncapital Financing Activities	<u>(29,222)</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Grant Income	188,738	-
Capital Assets Purchased for Own Use	(68,915)	-
Proceeds from Disposition of Asset	-	14,600
Interest Paid	(32,837)	-
Vehicle Replacement	<u>-</u>	<u>(158,389)</u>
Net Cash Received (used) for Capital Activities	<u>86,986</u>	<u>(143,789)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from Sales and Maturities of Investments	300,016	-
Purchase of Investments	(356,974)	-
Interest Received	<u>13,560</u>	<u>633</u>
Net Cash Provided by Investing Activities	<u>(43,398)</u>	<u>633</u>
Net Increase (Decrease) in Cash and Cash Equivalents	221,408	(18,273)
Cash and Cash Equivalents, January 1	<u>1,954,178</u>	<u>474,877</u>
Prior Period Adjustment (Note 13)	(136,467)	-
Cash and Cash Equivalents, December 31	<u>\$ 2,039,119</u>	<u>\$ 456,604</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	<u>\$ 31,387</u>	<u>\$ 77,345</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
(Increase)/Decrease in Due from Other Funds	-	(284)
(Increase)/Decrease in Due from Other Governments	9,834	(2,544)
(Increase)/Decrease in Other Assets	(390)	-
Increase/(Decrease) in Accounts Payable	9,965	2,643
Increase/(Decrease) in Accrued Payroll/Benefits	(3,519)	-
Increase/(Decrease) in Due to Other Funds	(10)	-
Increase/(Decrease) in Due to Other Governmental Entities	(710)	(3,103)
Depreciation	<u>160,485</u>	<u>50,826</u>
Total Adjustments to Net Cash Provided by Operating Activities	<u>175,655</u>	<u>47,538</u>
Net Cash Provided by Operating Activities	<u>\$ 207,042</u>	<u>\$ 124,883</u>
<b>Noncash Capital Activities</b>		
Capital Contributions:		
Capital Contributions from General Fund	\$ -	\$ 29,383
Capital Contributions from Parks Fund	-	11,015
Capital Contributions from Capital Investment Project Fund	<u>160,690</u>	<u>-</u>
Total Capital Contributions	<u>\$ 160,690</u>	<u>\$ 40,398</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, 2013)*

### 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.

The City has reviewed all applicable statements through GASB Statement No. 71 and has implemented those that apply.

#### 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 to four-year staggered terms. One of the Councilmembers is elected by the Council to serve as Mayor. The Council appoints the City Manager, who administers the City.

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 Position 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 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, deferred outflows, liabilities, deferred inflows, 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, deferred outflows, liabilities, deferred inflows, 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 Fund** - The Special Revenue Fund 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 Fund:

- *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 2012 the City adopted Ordinance No. 10-12 which committed all residential and commercial building permit fees, and residential and commercial building plan review fees received into the Development Services Fund and all Aquatic Center revenues received into the Parks Fund for purposes of GASB 54.
- *Parks Fund.* To account for the parks programs which include parks maintenance as well as the Covington Aquatic Center.

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

**Capital Project Funds** – The Capital Project Funds account for the financing of major capital acquisitions and construction projects other than those financed by Proprietary Funds.

- *Local Improvement District 99-01 Fund.* To account for resources used to finance specific capital improvements, which are deemed to primarily benefit certain properties located near the project.
- *Capital Investment Program Fund.* To account for the financial resources to be used for the acquisition or construction of major capital facilities.

The City reports the following major proprietary fund:

**Business-Type Funds** - Enterprise funds account for activity for which a fee is charged to external users with the intent of covering all or a significant portion of expenses including depreciation. Enterprise funds are required if debt is issued that is backed solely by enterprise fund fees, or if there is a legal requirement, or policy decision to recover all direct costs. The City of Covington uses the following enterprise fund:

- *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.

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 *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Surface Water Management Fund and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of providing the services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating 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 any time 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.

### **4. Reconciliation of Budgetary Information to GAAP**

For managerial purposes, the City of Covington treats General Fund, Cumulative Reserve Fund, Contingency Fund, Real Estate Excise Tax 1<sup>st</sup> 1/4% Fund, and Real Estate Excise Tax 2<sup>nd</sup> 1/4% Fund separately. However, the latter four do not meet the criteria of a special revenue fund as set forth in GASB Statement No. 54 and for reporting purposes are presented in combination with the General Fund in order to comply with GAAP. However, the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual on page 28 compares only the General Fund as adopted in the budget along with the related revenues and expenditures. It does not include the budget or actual data for the Cumulative Reserve Fund, Contingency Fund, Real Estate Excise Tax 1<sup>st</sup> 1/4% Fund, and Real Estate Excise Tax 2<sup>nd</sup> 1/4% Funds. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual is also presented for the Cumulative Reserve Fund, Contingency Fund, Real Estate Excise Tax 1<sup>st</sup> 1/4% Fund, and Real Estate Excise Tax 2<sup>nd</sup> 1/4% Fund on pages 79 to 83. Below you will find the combining of these funds with the General Fund for reporting purposes.

	General	Cumulative	Contingency	Real Estate	Real Estate	Total
	Fund	Reserve	Fund	Excise Tax	Excise Tax	Revised
	Fund	Fund	Fund	1st 1/4% Fund	2nd 1/4% Fund	General
						Fund
<b>Revenues</b>						
Taxes	\$ 7,551,751	\$ -		\$ 272,604	\$ 271,912	\$8,096,267
Licenses and Permits	37,500	-	-	-	-	37,500
Intergovernmental	327,034	-	-	-	-	327,034
Charges for Goods and Services	213,527	-	-	-	-	213,527
Fines and Forfeitures	122,836	-	-	-	-	122,836
Interest Income	4,811	1,992	-	102	102	7,007
Interfund Services Payment	383,917	-	-	-	-	383,917
Miscellaneous	90,687	-	3,449	-	-	94,136
Total Revenues	<u>8,732,063</u>	<u>1,992</u>	<u>3,449</u>	<u>272,706</u>	<u>272,014</u>	<u>9,282,224</u>
<b>Expenditures</b>						
Current:						
General Government:						
City Council	435,074	-	-	-	-	435,074
Council Contingency	-	-	-	-	-	-
City Court	461,096	-	-	-	-	461,096
City Manager	979,339	-	-	-	-	979,339
Finance	530,720	-	-	-	-	530,720
City Attorney	68,289	-	-	-	-	68,289
Personnel	346,862	-	-	-	-	346,862
Solid Waste	691	-	-	-	-	691
Central Services	<u>499,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>499,656</u>
Total General Government	<u>3,321,727</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,321,727</u>
Community Development:						
Total Community Development	<u>593,587</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>593,587</u>
Public Safety:						
Total Public Safety	<u>3,081,999</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,081,999</u>
Capital Outlay:						
General Government	12,442	-	-	-	-	12,442
Public Safety	<u>29,382</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,382</u>
Total Expenditures	<u>7,039,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,039,137</u>
Excess (Deficiency) of Revenues						
Over Expenditures	<u>1,692,926</u>	<u>1,992</u>	<u>3,449</u>	<u>272,706</u>	<u>272,014</u>	<u>2,243,087</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	59,525	4,446	-	-	-	63,971
Transfers Out	(1,243,219)	(4,184)	-	(323,783)	(323,783)	(1,894,969)
Compensation Loss of Asset	<u>10,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,947</u>
Total Other Financing Sources (Uses)	<u>(1,172,747)</u>	<u>262</u>	<u>-</u>	<u>(323,783)</u>	<u>(323,783)</u>	<u>(1,820,051)</u>
Net Change in Fund Balances	520,179	2,254	3,449	(51,077)	(51,769)	423,036
Fund Balances, January 1	<u>3,506,626</u>	<u>1,374,817</u>	<u>414,911</u>	<u>98,683</u>	<u>98,683</u>	<u>5,493,720</u>
Fund Balances, December 31	<u>\$ 4,026,805</u>	<u>\$1,377,071</u>	<u>\$ 418,360</u>	<u>\$ 47,606</u>	<u>\$ 46,914</u>	<u>\$5,916,756</u>

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position/Fund Balance**

**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, and short-term investments with original maturities of three months or less from the date of acquisition.

**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), or internal balances. A separate schedule of interfund balances and transfers 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. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## **9. Compensated Absences**

In governmental funds, compensated absences (i.e., vacation, merit, 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.

*Merit Time.* Employees are paid 100% of any accrued merit time upon termination. All merit 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, 2013 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 Position. 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, 2013 The City has no termination benefits to report.

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

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

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. Unearned Revenue**

In the Government-wide Financial Statements this account includes amounts that have not met the revenue recognition criteria.

## **11. Net Position**

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

- a. Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets or related debt also should be included.
- b. Restricted net position – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- c. Unrestricted net position – The difference between total net position and net investment in capital assets and restricted net position.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## **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 City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

**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. The City Manager has the authority to assign funds for specific purposes in an amount not to exceed \$30,000 per purpose or in total to not exceed \$200,000. Any funds set aside as Assigned Fund Balance must be reported to the City Council at their next regular meeting and recorded in the minutes. The City Council has the authority to remove or change the assignment of the funds with a simple majority vote.

**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: DEPOSITS AND INVESTMENTS**

### **A. Deposits**

On December 31, 2013, the carrying amount of the City's deposits was \$10,282,302, and the total bank balance was \$10,281,703. 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 \$250,000 of the City's deposits. The deposit balances over \$250,000 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, 2013, the City's total deposits and cash equivalents, including investment in the State Treasurer's Pool, consisted of the following:

Operating Accounts	\$ 1,017,580
State Treasurer's Pool	9,208,928
Forfeiture Account	55,194
Petty Cash	<u>600</u>
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 10,282,302</u></b>

### **B. Investments**

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

The City does not allow investment in collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), and other principal only (POs) and interest only (IOs) obligations that are secured with mortgages issued by any federal agency,

instrumentality or private firm. No derivative products will be utilized unless permitted by law, and not without prior City Council approval. No derivative products shall be utilized without an analysis by an independent financial advisor. No derivative products shall be used for the purpose of interest rate speculation. The City does not currently use derivative products.

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

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

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

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

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity</u>				<u>Credit Rating</u>
		<u>3 Months or Less</u>	<u>3 to 12 Months</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	
U.S. Agency Securities	\$ 1,557,222	\$ -	\$ -	\$ 1,357,449	\$ 199,773	AAA/Aaa
Municipal Securities	566,837	-	566,837	-	-	A1/AA1/AA2
State of Washington Local Governmental Investment Pool (LGIP)	-	-	-	-	-	Unrated
<b>Total</b>	<u>\$ 2,124,059</u>	<u>\$ -</u>	<u>\$ 566,837</u>	<u>\$ 1,357,449</u>	<u>\$ 199,773</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 United States 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, 2013 all of the \$2,124,059 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 3: 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 2013 was \$1.5476 per \$1,000 of assessed valuation, including exempt properties, of \$1,537,454,655 for a total regular levy of \$2,320,393.

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

## NOTE 4: CAPITAL ASSETS

### A. Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

#### Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 17,809,178	\$ 1,404,150	\$ -	\$ 19,213,328
Intangibles	940,890	-	-	940,890
Work in Progress	<u>2,540,328</u>	<u>523,717</u>	<u>(1,779,194)</u>	<u>1,284,851</u>
Total capital assets, not being depreciated	<u>21,290,396</u>	<u>1,927,867</u>	<u>(1,779,194)</u>	<u>21,439,069</u>
Capital assets, being depreciated:				
Buildings	716,215	-	-	716,215
Improvements other than buildings	618,406	54,188	-	672,594
Machinery and equipment	770,659	157,041	(77,206)	850,494
Infrastructure	<u>28,865,588</u>	<u>1,975,421</u>	<u>-</u>	<u>30,841,009</u>
Total capital assets being depreciated	<u>30,970,868</u>	<u>2,186,650</u>	<u>(77,206)</u>	<u>33,080,312</u>
Less accumulated depreciation for:				
Buildings	(125,830)	(35,811)	-	(161,641)
Improvements other than buildings	(380,186)	(46,637)	-	(426,823)
Machinery and equipment	(463,295)	(59,712)	77,206	(445,801)
Infrastructure	<u>(2,457,486)</u>	<u>(1,085,405)</u>	<u>-</u>	<u>(3,542,891)</u>
Total accumulated depreciation	<u>(3,426,797)</u>	<u>(1,227,565)</u>	<u>77,206</u>	<u>(4,577,156)</u>
Total capital assets, being depreciated net	<u>27,544,071</u>	<u>959,085</u>	<u>-</u>	<u>28,503,156</u>
Governmental activities capital assets, net	<u>\$ 48,834,467</u>	<u>\$ 2,886,952</u>	<u>\$ (1,779,194)</u>	<u>\$ 49,942,225</u>

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

Governmental Activities	
General Government	\$ 40,920
Community Development	903
Public Safety	-
Culture and Recreation	90,222
Streets and Highways	1,044,694
Capital assets held by the government's Internal Service Funds	<u>50,826</u>
Total depreciation expense - governmental activities	<u>\$1,227,565</u>

**Business-type Activities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 993,232	\$ -	\$ -	\$ 993,232
Intangibles	7,003	-	-	7,003
Work in Progress	<u>797,959</u>	<u>132,090</u>	<u>(635,814)</u>	<u>294,235</u>
Total capital assets, not being depreciated	<u>1,798,194</u>	<u>132,090</u>	<u>(635,814)</u>	<u>1,294,470</u>
Capital assets, being depreciated:				
Buildings	13,131	-	-	13,131
Improvements other than buildings	17,238	-	-	17,238
Machinery and equipment	61,056	13,265	(9,358)	64,963
Infrastructure	<u>4,084,577</u>	<u>703,341</u>	<u>-</u>	<u>4,787,918</u>
Total capital assets being depreciated	<u>4,176,002</u>	<u>716,606</u>	<u>(9,358)</u>	<u>4,883,250</u>
Less accumulated depreciation for:				
Buildings	(2,627)	(656)	-	(3,283)
Improvements other than buildings	(11,297)	(789)	-	(12,086)
Machinery and equipment	(34,179)	(3,340)	9,358	(28,161)
Infrastructure	<u>(417,925)</u>	<u>(155,701)</u>	<u>-</u>	<u>(573,626)</u>
Total accumulated depreciation	<u>(466,028)</u>	<u>(160,486)</u>	<u>9,358</u>	<u>(617,156)</u>
Total capital assets, being depreciated net	<u>3,709,974</u>	<u>556,120</u>	<u>-</u>	<u>4,266,094</u>
Business-type activities capital assets, net	<u>\$ 5,508,168</u>	<u>\$ 688,210</u>	<u>\$ (635,814)</u>	<u>\$ 5,560,564</u>

**B. Construction Commitments**

The City of Covington has active construction projects as of December 31, 2013.

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	\$ 4,222	\$ 220,496
Covington Community Park	Goodfellow Bros., Inc.	1,374,418	72,338
Annual Road Overlay	King County	115,368	358,913
City-Wide Safety Improvements	Gray & Osborne, Inc.	30,155	4,651
156th Ave SE Rehabilitation Project	Gray & Osborne, Inc.	12,148	27,835
SR 516 Safety Widening	Tetra Tech, Inc.	<u>1,054,583</u>	<u>257,560</u>
		<u>\$ 2,590,894</u>	<u>\$ 941,793</u>

## **NOTE 5: PENSION PLANS**

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

The City elected not to join the State's Public Employees 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, 2013 through December 31, 2013, was \$3,198,704. The City's total payroll for the same period was \$3,489,258. The table below shows the required percentage contribution and the total actual contributions for 2013 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%	\$105,557
Employer	7.5%	\$239,903

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. As of December 31, 2013 there were 114 plan members.

### **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, 2013 through December 31, 2013 was \$3,489,258. The City's total

payroll for the same period was \$3,489,258. The table below shows the required percentage contribution and the total actual contributions for 2013 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%	\$216,334
Employer	5.6%	\$195,398

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. As of December 31, 2013 there were 173 plan members.

**NOTE 6: 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 162 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 \$750,000, 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. 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 7: 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 Position. Federal arbitrage if applicable will be calculated and the amount of installments for each debt issue disclosed. There is currently no federal arbitrage to disclose.

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 Position. There are currently no delinquent accounts. The bond was paid off early in 2013.

Compensated absences are reported in the Government-wide Statements – Statement of Net Position. As of December 31, 2013, the City obligated \$301,021 as the portion of compensated absences not expected to be funded with current available expendable resources, \$277,579 in governmental activities, and \$23,442 in business-type activities. For governmental activities, the General Fund, Street Fund, Development Services Fund, and Parks Fund liquidate 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 Position.

The City has no short-term debt outstanding only long-term.

The following schedule details the long-term liability activity and balances of the City as of December 31, 2013.

**Changes in Long-Term Liabilities Governmental Activities**

<u>Description</u>	<u>Interest Rate</u>	<u>Fund Used to Pay Debt</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Original Debt Issued</u>	<u>Debt Outstanding 1/1/13</u>	<u>Debt Issued in 2013</u>	<u>Debt Redemption in 2013</u>	<u>Debt Outstanding 12/31/2013</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>										
General obligation bonds - Councilmanic: 2007A (Tax-Exempt)	4.15%	Long-Term Debt Service	6/5/2007	11/1/2027	\$ 10,000,000	\$ 10,000,000	\$ -	\$ -	\$ 10,000,000	-
Add: bond premium 2007T (Taxable)	5.43%	Long-Term Debt Service	6/5/2007	11/1/2015	52,655 2,505,000	36,983 1,285,000	- -	2,633 545,000	34,350 740,000	- 570,000
2008 (Tax-Exempt)	4.00%	Long-Term Debt Service	6/10/2008	6/1/2023	308,068	233,763	-	18,314	215,449	19,054
Special assessment debt with government commitment	4.80%	LID 99-01	7/1/2004	7/1/2021	460,100	28,074	-	28,074	-	-
Compensated absences						390,752	79,435	71,325	398,862	277,579
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>2,578,748</u>	<u>-</u>	<u>214,896</u>	<u>2,363,852</u>	<u>214,896</u>
<b>Total Governmental Activities</b>					<u>\$ 17,111,323</u>	<u>\$ 14,553,320</u>	<u>\$ 79,435</u>	<u>\$ 880,242</u>	<u>\$ 13,752,513</u>	<u>\$ 1,081,529</u>

**Changes in Long-Term Liabilities Business-type Activities**

<u>Description</u>	<u>Debt Outstanding 1/1/13</u>	<u>Debt Issued in 2013</u>	<u>Debt Redemption in 2013</u>	<u>Debt Outstanding 12/31/2013</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Compensated absences	\$ 79,228	\$ 12,259	\$ 17,226	\$ 74,261	\$ 50,820
<b>Total Business-type activities</b>	<u>\$ 79,228</u>	<u>\$ 12,259</u>	<u>\$ 17,226</u>	<u>\$ 74,261</u>	<u>\$ 50,820</u>

As of December 31, 2013, the City's annual debt service requirements for general obligations and other governmental debt were:

**Annual Debt Service Requirements to Maturity**

<u>Year</u>	<u>General Obligation</u>		<u>Governmental Activities Other Debt</u>		<u>Total Annual Requirements</u>
	<u>Bonds Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	589,054	462,646	214,896	11,819	1,278,415
2015	607,660	431,438	214,896	10,745	1,264,738
2016	650,625	403,267	214,896	9,670	1,278,458
2017	676,458	375,659	214,896	8,596	1,275,609
2018	712,325	342,042	214,896	7,521	1,276,784
2019-2023	3,992,163	1,259,931	1,074,479	21,490	6,348,063
2024-2028	<u>3,715,000</u>	<u>390,638</u>	<u>214,896</u>	<u>1,074</u>	<u>4,321,608</u>
<b>Total</b>	<u>\$ 10,943,285</u>	<u>\$ 3,665,622</u>	<u>\$ 2,363,854</u>	<u>\$ 70,916</u>	<u>\$ 17,043,676</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 \$339,487 for the year ended December 31, 2013.

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

<b>Fiscal Year</b>	
<b><u>Ending</u></b>	<b><u>Amount</u></b>
2014	347,974
2015	356,673
2016	365,590
2017	374,730
Total	<u><u>\$1,444,967</u></u>

**NOTE 8: 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 9: INTERFUND BALANCES AND TRANSFERS**

The composition of interfund activity as of December 31, 2013, is as follows:

Due to/due from other funds:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Unemployment Insurance - Internal Service Fund	General	\$ 855
	Development Services	290
	Parks	438
	Capital Investment	21
	Nonmajor Governmental	161
	Surface Water Management - Enterprise Fund	<u>241</u>
Total		<u>\$ 2,006</u>

The outstanding balances between funds are the result of accrued payroll owed to the Unemployment Insurance Fund at the end of the year.

Interfund transfers:

**Transfer In:**

	<u>General Fund</u>	<u>Parks Fund</u>	<u>Long-Term Debt Fund</u>	<u>Capital Investment Program Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
<b>Transfer Out:</b>						
General Fund	\$ -	\$388,840	\$1,255,728	\$ -	\$ 250,401	\$1,894,969
Parks Fund	-	-	27,483	70,660	-	98,143
Local Improvement District 99-01 Fund	-	-	-	-	7,094	7,094
Nonmajor Governmental	63,971	-	-	-	-	63,971
Enterprise Fund						
Surface Water Management Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,162</u>	<u>-</u>	<u>38,162</u>
Total Transfers	<u>\$ 63,971</u>	<u>\$388,840</u>	<u>\$1,283,211</u>	<u>\$ 108,822</u>	<u>\$ 257,495</u>	<u>\$2,102,339</u>

The transfers from the General Fund were for ongoing expenses that are being funded from utility tax revenues as well as a debt service transfer. The transfers from the Parks Fund were for a debt service transfer as well as completion of phase one of the Covington Community Park. The

transfer from the Local Improvement District 99-01 Fund was to move excess monies. The transfer from the non-major governmental funds was to transfer excess monies as well as repayment of a traffic concurrency project.

**NOTE 10: RESTRICTED COMPONENT OF NET POSITION**

The government-wide statement of net position reports \$1,754,150 of restricted component of net position, of which \$94,780 is restricted for debt service and \$1,659,370 is restricted for capital improvement projects.

**NOTE 11: OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

The City does not currently offer any postemployment benefit plans.

**NOTE 12: 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:

	<u>Special Revenue Fund</u>		<u>Debt Service Fund</u>	<u>Capital Project Fund</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Development Services</u>	<u>Parks</u>	<u>Long-Term Debt Service</u>	<u>Local Improvement District 99-01</u>		
<b>Fund Balance</b>							
Fund Balances:							
<b>Nonspendable:</b>							
Prepays	\$ 156,449	\$ 6,288	\$ 8,266	\$ -	\$ -	\$ -	\$ 175,981
<b>Restricted for:</b>							
Debt Service	94,520	-	-	-	260	-	94,780
Capital Improvement Projects	-	-	-	-	-	1,683,289	1,683,289
<b>Committed to:</b>							
Development Services	-	1,756,447	-	-	-	-	1,756,447
Parks and Recreation	-	-	293,212	-	-	-	293,212
Capital Improvement Projects	-	-	-	-	-	63,829	63,829
<b>Assigned to:</b>							
Projected Budgetary Deficit	-	128,494	-	-	-	-	128,494
Street Maintenance	-	-	-	-	-	462,888	462,888
Capital Improvement Projects	-	-	-	-	-	346,321	346,321
<b>Unassigned</b>	<u>5,665,787</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,665,787</u>
<b>Total Fund Balances</b>	<u>\$5,916,756</u>	<u>\$ 1,891,229</u>	<u>\$301,478</u>	<u>\$ -</u>	<u>\$ 260</u>	<u>\$2,093,439</u>	<u>\$10,671,028</u>

## **NOTE 13: OTHER DISCLOSURES**

### **A. Prior Period Adjustments**

The City is recognizing \$136,467 of prior period revenue previously reported as revenue in the Surface Water Management Fund that should have been recognized in the Capital Investment Program Fund. Collected revenue for the surplus of right of way parcels were inappropriately recorded as surface water management revenue. This correction is reflected in the governmental fund statements as well as the Statement of Activities.

The City is also recognizing an adjustment which will increase net position of governmental activities by \$203,122. Last year's Statement of Net Position for governmental activities did not balance. The deferred inflow of resources for special assessments reported in the governmental funds balance sheets was not accounted for property in the Statement of Net Position and Statement of Activities. This correction is reflected in the Government-wide statements only.

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

# **Nonmajor Governmental Funds**

City of Covington  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2013

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	
	Street	Local Improvement District 99-01 Guaranty	Total Nonmajor Governmental Funds
<b>Assets and other Debits</b>			
Cash and Cash Equivalents	\$ 377,248	\$ -	\$ 377,248
Receivables (net of allowances for uncollectibles, where applicable):			
Accounts	68,092	-	68,092
Intergovernmental	59,926	-	59,926
Prepaid Items	4,978	-	4,978
Total Assets	<u>\$ 510,244</u>	<u>\$ -</u>	<u>\$ 510,244</u>
<b>Liabilities</b>			
Accounts Payable	\$ 20,125	\$ -	\$ 20,125
Accrued Payroll/Benefits	16,131	-	16,131
Due to Other Funds	161	-	161
Due to Other Governmental Entities	5,961	-	5,961
Total Liabilities	<u>42,378</u>	<u>-</u>	<u>42,378</u>
<b>Fund Balances</b>			
Nonspendable	4,978	-	4,978
Assigned	462,888	-	462,888
Total Fund Balances	<u>467,866</u>	<u>-</u>	<u>467,866</u>
Total Liabilities and Fund Balances	<u>\$ 510,244</u>	<u>\$ -</u>	<u>\$ 510,244</u>

City of Covington  
Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended December 31, 2013

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	
	Street	Local Improvement District 99-01 Guaranty	Total Nonmajor Governmental Funds
<b>Revenues</b>			
Licenses and Permits	\$ 266,065	\$ -	\$ 266,065
Intergovernmental	369,773	-	369,773
Charges for Goods and Services	11,960	-	11,960
Interest Income	498	71	569
Miscellaneous	1,122	-	1,122
Total Revenues	<u>649,418</u>	<u>71</u>	<u>649,489</u>
<b>Expenditures</b>			
Current:			
Streets and Highways	848,136	-	848,136
Total Expenditures	<u>848,136</u>	<u>-</u>	<u>848,136</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(198,718)</u>	<u>71</u>	<u>(198,647)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	250,401	7,094	257,495
Transfers Out	(4,446)	(59,525)	(63,971)
Compensation from Loss of Assets	3,291	-	3,291
Total Other Financing Sources (Uses)	<u>249,246</u>	<u>(52,431)</u>	<u>196,815</u>
Net Change in Fund Balances	50,528	(52,360)	(1,832)
Fund Balances, January 1	<u>417,338</u>	<u>52,360</u>	<u>469,698</u>
Fund Balances, December 31	<u>\$ 467,866</u>	<u>\$ -</u>	<u>\$ 467,866</u>

# Special Revenue

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

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

City of Covington  
Street Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2013

	<u>Budget</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under)</u>
<b>Revenues</b>				
Licenses and Permits	\$ 199,000	\$ 199,000	\$ 266,065	\$ 67,065
Intergovernmental	366,566	366,566	369,773	3,207
Charges for Goods and Services	4,875	4,875	11,960	7,085
Interest Income	200	200	498	298
Miscellaneous	-	-	1,122	1,122
Total Revenues	<u>570,641</u>	<u>570,641</u>	<u>649,418</u>	<u>78,777</u>
<b>Expenditures</b>				
Current:				
Streets and Highways	870,638	874,822	848,136	(26,686)
Total Expenditures	<u>870,638</u>	<u>874,822</u>	<u>848,136</u>	<u>(26,686)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(299,997)</u>	<u>(304,181)</u>	<u>(198,718)</u>	<u>105,463</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	246,217	250,401	250,401	-
Transfers Out	(1,875)	(1,875)	(4,446)	(2,571)
Compensation for Loss of Assets	-	-	3,291	3,291
Total Other Financing Sources (Uses)	<u>244,342</u>	<u>248,526</u>	<u>249,246</u>	<u>720</u>
Net Change in Fund Balance	(55,655)	(55,655)	50,528	106,183
Fund Balances, January 1	<u>387,386</u>	<u>417,338</u>	<u>417,338</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 331,731</u>	<u>\$ 361,683</u>	<u>\$ 467,866</u>	<u>\$ 106,183</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:

## **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.

## **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.

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, 2013

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>Revenues</b>				
Total Revenues	\$ -	\$ -	\$ -	\$ -
<b>Expenditures</b>				
Debt Service:				
Principal	778,210	778,210	778,210	-
Interest	505,001	505,001	505,001	-
Total Expenditures	1,283,211	1,283,211	1,283,211	-
Excess (Deficiency) of Revenues Over Expenditures	(1,283,211)	(1,283,211)	(1,283,211)	-
<b>Other Financing Sources (Uses)</b>				
Transfer In	1,283,211	1,283,211	1,283,211	-
Total Other Financing Sources (Uses)	1,283,211	1,283,211	1,283,211	-
Net Change in Fund Balance	-	-	-	-
Fund Balances, January 1	-	-	-	-
Fund Balances, December 31	\$ -	\$ -	\$ -	\$ -

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, 2013

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Interest Income	\$ 100	\$ 100	\$ 71	\$ (29)
Total Revenues	<u>100</u>	<u>100</u>	<u>71</u>	<u>(29)</u>
<b>Expenditures</b>				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>100</u>	<u>100</u>	<u>71</u>	<u>(29)</u>
Other Financing Sources (Uses):				
Transfers In	-	8,661	7,094	(1,567)
Transfers Out	<u>(52,414)</u>	<u>(61,121)</u>	<u>(59,525)</u>	<u>1,596</u>
Total Other Financing Sources (Uses)	<u>(52,414)</u>	<u>(52,460)</u>	<u>(52,431)</u>	<u>29</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(52,314)</u>	<u>(52,360)</u>	<u>(52,360)</u>	<u>-</u>
Fund Balances, January 1	<u>52,314</u>	<u>52,360</u>	<u>52,360</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# 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:

## **Major**

Local Improvement District 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.

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, 2013

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>Revenues</b>				
Special Assessments	\$ 38,321	\$ 38,321	\$ 36,992	\$ (1,329)
Interest Income	-	-	12	12
Total Revenues	<u>38,321</u>	<u>38,321</u>	<u>37,004</u>	<u>(1,317)</u>
<b>Expenditures</b>				
Capital Outlay:				
Streets and Highways	500	500	494	(6)
Debt Service:				
Principal	28,075	28,075	28,074	(1)
Interest	1,350	1,350	1,347	(3)
Total Expenditures	<u>29,925</u>	<u>29,925</u>	<u>29,915</u>	<u>(10)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>8,396</u>	<u>8,396</u>	<u>7,089</u>	<u>(1,307)</u>
<b>Other Financing Sources (Uses)</b>				
Transfer In	52,414	-	-	-
Transfer Out	(60,810)	(8,661)	(7,094)	1,567
Total Other Financing Sources (Uses)	<u>(8,396)</u>	<u>(8,661)</u>	<u>(7,094)</u>	<u>1,567</u>
Net Change in Fund Balance	-	(265)	(5)	260
Fund Balances, January 1	<u>-</u>	<u>265</u>	<u>265</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260</u>	<u>\$ 260</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, 2013

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>Revenues</b>				
Taxes	\$ 17,427	\$ 17,427	\$ -	\$ (17,427)
Intergovernmental	1,180,000	1,615,577	359,823	(1,255,754)
Charges for Goods and Services	-	-	165,057	165,057
Interest Income	2,500	2,500	3,139	639
Total Revenues	<u>1,199,927</u>	<u>1,635,504</u>	<u>528,019</u>	<u>(1,107,485)</u>
<b>Expenditures</b>				
Capital Outlay:				
Culture and Recreation	12,000	76,240	245,167	168,927
Streets and Highways	<u>1,260,000</u>	<u>1,731,729</u>	<u>634,974</u>	<u>(1,096,755)</u>
Total Expenditures	<u>1,272,000</u>	<u>1,807,969</u>	<u>880,141</u>	<u>(927,828)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(72,073)</u>	<u>(172,465)</u>	<u>(352,122)</u>	<u>(179,657)</u>
<b>Other Financing Sources (Uses)</b>				
Transfer In	-	<u>236,859</u>	<u>108,822</u>	<u>(128,037)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>236,859</u>	<u>108,822</u>	<u>(128,037)</u>
Net Change in Fund Balance	(72,073)	64,394	(243,300)	(307,694)
Fund Balances, January 1	<u>836,696</u>	<u>2,200,272</u>	<u>2,200,272</u>	<u>-</u>
Prior Period Adjustment (Note 13)	-	-	136,467	136,467
Fund Balances, December 31	<u>\$ 764,623</u>	<u>\$ 2,264,666</u>	<u>\$ 2,093,439</u>	<u>\$ (171,227)</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 Position  
December 31, 2013

	Unemployment Insurance	Equipment Replacement	Total
<b>Assets and other Debits</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 185,262	\$ 271,342	\$ 456,604
Due from other Funds	2,006	-	2,006
Intergovernmental receivable	2,544	-	2,544
Total Current Assets	<u>189,812</u>	<u>271,342</u>	<u>461,154</u>
Noncurrent Assets:			
Capital Assets:			
Improvements other than Buildings	-	54,188	54,188
Machinery and Equipment	-	573,743	573,743
Accumulated Depreciation	-	(226,806)	(226,806)
Total Capital Assets (net of accumulated depreciation)	<u>-</u>	<u>401,125</u>	<u>401,125</u>
Total Assets	<u>189,812</u>	<u>672,467</u>	<u>862,279</u>
<b>Deferred Outflows of Resources</b>			
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>Liabilities</b>			
Current Liabilities:			
Accounts Payable	-	4,824	4,824
Due to Other Governmental Entities	-	-	-
Total Liabilities	<u>-</u>	<u>4,824</u>	<u>4,824</u>
<b>Deferred Inflows of Resources</b>			
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Position</b>			
Net Investment in Capital Assets	-	401,125	401,125
Unrestricted	<u>189,812</u>	<u>266,518</u>	<u>456,330</u>
Total Net Position	<u>\$ 189,812</u>	<u>\$ 667,643</u>	<u>\$ 857,455</u>

City of Covington  
Internal Service Funds  
Combining Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended December 31, 2013

	Unemployment Insurance	Equipment Replacement	Total
Operating Revenues:			
Unemployment Charges	\$ 42,993	\$ -	\$ 42,993
Fuel and Maintenance Assessments	-	33,686	33,686
Equipment Replacement Assessments	-	89,031	89,031
Total Operating Revenues	<u>42,993</u>	<u>122,717</u>	<u>165,710</u>
Operating Expenses:			
Unemployment Benefits Paid	2,362	-	2,362
Vehicle Fuel	-	15,404	15,404
Repairs and Maintenance of Vehicles	-	18,282	18,282
Payments Made to Suppliers	-	1,491	1,491
Depreciation	-	50,826	50,826
Total Operating Expenses	<u>2,362</u>	<u>86,003</u>	<u>88,365</u>
Operating Income (Loss)	<u>40,631</u>	<u>36,714</u>	<u>77,345</u>
Nonoperating Revenues (Expenses)			
Interest Revenue	239	394	633
Gain or (Loss) on Disposition of Capital Assets	-	14,600	14,600
Total Nonoperating Revenues (Expenses)	<u>239</u>	<u>14,994</u>	<u>15,233</u>
Capital Contributions:			
General Fund	-	29,383	29,383
Parks Fund	-	11,015	11,015
Total Capital Contributions	<u>-</u>	<u>40,398</u>	<u>40,398</u>
Change in Net Position	40,870	92,106	132,976
Net Position, January 1	<u>148,942</u>	<u>575,537</u>	<u>724,479</u>
Net Position, December 31	<u>\$ 189,812</u>	<u>\$ 667,643</u>	<u>\$ 857,455</u>

City of Covington  
Internal Service Funds  
Combining Statement of Cash Flows  
For the Fiscal Year Ended December 31, 2013

	Unemployment Insurance	Equipment Replacement	Total
<b>Cash Flows from Operating Activities</b>			
Cash Received from Quasi-External Transactions:			
Unemployment Contributions	\$ 42,708	\$ -	\$ 42,708
Vehicle Fuel and Maintenance Assessments	-	33,686	33,686
Vehicle Replacement Assessments	-	89,031	89,031
Total Cash Received from Quasi-External Transactions	42,708	122,717	165,425
Payments Made to Suppliers	-	(32,553)	(32,553)
Insurance Proceeds	-	-	-
Cash Paid for Unemployment Assessments	(7,989)	-	(7,989)
Net Cash Provided by Operating Activities	34,719	90,164	124,883
<b>Cash Flows from Noncapital Financing Activities</b>			
Grant Income	-	-	-
Net Cash Provided by Noncapital Financing Activities	-	-	-
<b>Cash Flows from Capital Activities</b>			
Proceeds from Disposition of Asset	-	14,600	14,600
Equipment Purchase	-	(158,389)	(158,389)
Net Cash Received (Used) for Capital Activities	-	(143,789)	(143,789)
<b>Cash Flows from Investing Activities</b>			
Interest Received	239	394	633
Net Cash Provided by Investing Activities	239	394	633
Net Increase (Decrease) in Cash and Cash Equivalents	34,958	(53,231)	(18,273)
Cash and Cash Equivalents, January 1	150,304	324,573	474,877
Cash and Cash Equivalents, December 31	\$ 185,262	\$ 271,342	\$ 456,604
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating Income	\$ 40,631	\$ 36,714	\$ 77,345
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
(Increase)/Decrease in Intergovernmental Receivable	(2,544)	-	(2,544)
(Increase)/Decrease in Due From Other Funds	(284)	-	(284)
Increase/(Decrease) in Accounts Payable	-	2,643	2,643
Increase/(Decrease) in Due to Other Governmental Entities	(3,084)	(19)	(3,103)
Depreciation	-	50,826	50,826
Total Adjustments to Net Cash Provided by Operating Activities	(5,912)	53,450	47,538
Net Cash Provided by Operating Activities	\$ 34,719	\$ 90,164	\$ 124,883
<b>Noncash Capital Activities</b>			
Capital Contributions:			
General Fund	\$ -	\$ 29,383	\$ 29,383
Parks Fund	-	11,015	11,015
Total Capital Contributions	\$ -	\$ 40,398	\$ 40,398

# **OTHER SUPPLEMENTARY INFORMATION**

# Managerial Funds

With the implementation of GASB Statement 54, the Cumulative Reserve Fund, Contingency Fund, Real Estate Excise Tax 1<sup>st</sup> ¼% Fund, and Real Estate Excise Tax 2<sup>nd</sup> ¼% Funds are now combined with the General Fund. For budgetary purposes, however, they are included and presented as Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual. The City of Covington has the following managerial funds:

Cumulative Reserve Fund – To account for accumulated monies that in general terms can be used for several different municipal purposes as well as for a very specific municipal purpose. The monies accumulated in this fund shall never be expended for any other purpose than those specified, without an approving vote by a two-thirds majority of the members of the legislative authority of the City.

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

Real Estate Excise Tax 1<sup>st</sup> ¼% Fund – To account for the 1<sup>st</sup> ¼% of monies received by the City from the implementation of an excise tax on real estate transactions within the City.

Real Estate Excise Tax 2<sup>nd</sup> ¼% Fund - To account for the 2<sup>nd</sup> ¼% of monies received by the City from the implementation of an excise tax on real estate transactions within the City.

City of Covington  
Cumulative Reserve Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2013

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Interest Income	\$ 8,600	\$ 8,600	\$ 1,992	\$ (6,608)
Total Revenues	<u>8,600</u>	<u>8,600</u>	<u>1,992</u>	<u>(6,608)</u>
<b>Expenditures</b>				
Current:				
General Government	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>8,600</u>	<u>8,600</u>	<u>1,992</u>	<u>(6,608)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	1,875	1,875	4,446	2,571
Transfers Out	-	(4,184)	(4,184)	-
Total Other Financing Sources (Uses)	<u>1,875</u>	<u>(2,309)</u>	<u>262</u>	<u>2,571</u>
Net Change in Fund Balance	10,475	6,291	2,254	(4,037)
Fund Balances, January 1	<u>1,367,301</u>	<u>1,374,817</u>	<u>1,374,817</u>	<u>-</u>
Fund Balances, December 31	<u>\$ 1,377,776</u>	<u>\$ 1,381,108</u>	<u>\$ 1,377,071</u>	<u>\$ (4,037)</u>

City of Covington  
Contingency Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2013

	Budget		Actual	Variance
	Original	Final		Over (Under)
<b>Revenues</b>				
Miscellaneous	\$ -	\$ -	\$ 3,449	\$ 3,449
Total Revenues	-	-	3,449	3,449
<b>Expenditures</b>				
Current:				
General Government	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	-	-	3,449	3,449
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	-	-	3,449	3,449
Fund Balances, January 1	419,029	414,911	414,911	-
Fund Balances, December 31	<u>\$ 419,029</u>	<u>\$ 414,911</u>	<u>\$ 418,360</u>	<u>\$ 3,449</u>

City of Covington  
Real Estate Excise Tax 1st 1/4% Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2013

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Taxes	\$ 181,500	\$ 225,040	\$ 272,604	\$ 47,564
Interest Income	60	60	102	42
Total Revenues	<u>181,560</u>	<u>225,100</u>	<u>272,706</u>	<u>47,606</u>
<b>Expenditures</b>				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>181,560</u>	<u>225,100</u>	<u>272,706</u>	<u>47,606</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	<u>(181,560)</u>	<u>(323,783)</u>	<u>(323,783)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(181,560)</u>	<u>(323,783)</u>	<u>(323,783)</u>	<u>-</u>
Net Change in Fund Balance	-	(98,683)	(51,077)	47,606
Fund Balances, January 1	<u>-</u>	<u>98,683</u>	<u>98,683</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,606</u>	<u>\$ 47,606</u>

City of Covington  
Real Estate Excise Tax 2nd 1/4% Fund  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances  
Budget and Actual  
For the Fiscal Year Ended December 31, 2013

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Taxes	\$ 181,500	\$ 225,040	\$ 271,912	\$ 46,872
Interest Income	60	60	102	42
Total Revenues	<u>181,560</u>	<u>225,100</u>	<u>272,014</u>	<u>46,914</u>
<b>Expenditures</b>				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>181,560</u>	<u>225,100</u>	<u>272,014</u>	<u>46,914</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	-	-	-
Transfers Out	<u>(181,560)</u>	<u>(323,783)</u>	<u>(323,783)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(181,560)</u>	<u>(323,783)</u>	<u>(323,783)</u>	<u>-</u>
Net Change in Fund Balance	-	(98,683)	(51,769)	46,914
Fund Balances, January 1	<u>-</u>	<u>98,683</u>	<u>98,683</u>	<u>-</u>
Fund Balances, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,914</u>	<u>\$ 46,914</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 Position by Component**  
**Last Ten Fiscal Years**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Governmental Activities</b>										
Net Investment in Capital Assets	\$36,588,574	\$34,671,899	\$36,745,357	\$36,451,269	\$32,632,260	\$30,075,857	\$15,320,656	\$16,130,426	\$10,907,638	\$ 9,861,925
Restricted	1,754,150	1,803,923	3,341,693	899,236	819,528	335,937	8,806,853	4,766,096	5,684,386	3,853,300
Unrestricted	<u>8,968,659</u>	<u>8,626,937</u>	<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>
Total Governmental Activities Net Position	<u>47,311,383</u>	<u>45,102,759</u>	<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>
<b>Business-Type Activities</b>										
Net Investment in Capital Assets	5,560,564	5,508,168	-	-	-	-	-	-	-	-
Unrestricted	<u>2,278,333</u>	<u>2,269,375</u>	-	-	-	-	-	-	-	-
Total Business-Type Activities Net Position	<u>7,838,897</u>	<u>7,777,543</u>	-	-	-	-	-	-	-	-
<b>Primary Government</b>										
Net Investment in Capital Assets	42,149,138	40,180,067	36,745,357	36,451,269	32,632,260	30,075,857	15,320,656	16,130,426	10,907,638	9,861,925
Restricted	1,754,150	1,803,923	3,341,693	899,236	819,528	335,937	8,806,853	4,766,096	5,684,386	3,853,300
Unrestricted	<u>11,246,992</u>	<u>10,896,312</u>	<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>
Total Business-Type Activities Net Position	<u>\$55,150,280</u>	<u>\$52,880,302</u>	<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>

**City of Covington**  
**Changes in Net Position**  
**Last Ten Fiscal Years**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Expenses</b>										
<b>Governmental Activities</b>										
General Government	\$ 3,346,797	\$ 3,285,987	\$ 3,420,106	\$ 3,350,824	\$ 3,162,014	\$ 2,873,695	\$ 2,203,276	\$ 2,316,049	\$ 1,849,808	\$ 2,190,143
Community Development	1,445,728	1,147,440	1,025,432	981,746	1,716,586	1,969,350	1,833,553	1,182,518	1,043,441	1,792,676
Public Safety	3,111,381	2,919,182	2,810,419	2,784,450	2,638,416	2,512,169	2,168,594	2,000,925	1,886,554	1,820,338
Culture and Recreation	1,682,194	1,339,704	1,866,928	1,210,301	1,201,680	945,176	770,396	1,194,095	1,455,678	783,835
Streets and Highways	1,867,457	1,974,551	1,877,172	1,890,955	2,547,725	1,812,661	2,034,403	1,711,212	1,159,623	583,488
Interest on Long-Term Debt	492,925	523,969	586,828	607,373	615,379	619,402	491,504	29,916	-	-
Total Governmental Activities Expenses	11,946,482	11,190,833	11,586,885	10,825,649	11,881,800	10,732,453	9,501,726	8,434,715	7,395,104	7,170,480
<b>Business-Type Activities</b>										
Surface Water Management	1,712,481	1,568,984	-	-	-	-	-	-	-	-
Total Business-Type Activities	1,712,481	1,568,984	-	-	-	-	-	-	-	-
Total Primary Government Expenses	13,658,963	12,759,817	11,586,885	10,825,649	11,881,800	10,732,453	9,501,726	8,434,715	7,395,104	7,170,480
<b>Program Revenues</b>										
<b>Governmental Activities</b>										
Charges for Services										
General Government	499,888	549,802	229,385	190,859	223,530	184,387	152,367	120,834	82,755	98,064
Community Development	981,469	1,313,052	1,487,058	1,084,052	555,350	1,482,286	2,111,026	1,206,174	1,062,918	1,436,524
Public Safety	5,700	5,700	12,100	6,759	-	-	-	-	-	-
Culture and Recreation	728,148	620,086	515,174	501,461	461,341	460,354	348,832	589,093	639,282	55,518
Streets and Highways	13,082	44,527	1,677,171	1,558,598	1,418,986	1,246,132	1,104,765	993,177	837,630	753,814
Operating Grants and Contributions	464,023	498,197	531,845	540,429	609,253	578,957	510,222	448,938	726,560	486,401
Capital Grants and Contributions	1,967,136	3,555,983	834,607	3,729,999	3,416,677	7,115,216	5,846,259	1,987,731	1,316,052	3,639,117
Total Governmental Activities Program Revenues	4,659,446	6,587,347	5,287,340	7,612,157	6,685,137	11,067,332	10,073,471	5,345,947	4,665,197	6,469,438
<b>Business-Type Activities</b>										
Charges for Services	1,727,845	1,740,142	-	-	-	-	-	-	-	-
Operating Grants and Contributions	29,726	60,225	-	-	-	-	-	-	-	-
Capital Grants and Contributions	26,887	349,313	-	-	-	-	-	-	-	-
Total Business-Type Activities	1,784,458	2,149,680	-	-	-	-	-	-	-	-
Total Primary Government Program Revenues	6,443,904	8,737,027	5,287,340	7,612,157	6,685,137	11,067,332	10,073,471	5,345,947	4,665,197	6,469,438
<b>Net (Expense)/Revenue</b>										
Governmental Activities	(7,287,036)	(4,603,486)	(6,299,545)	(3,213,492)	(5,196,663)	334,879	571,745	(3,088,768)	(2,729,907)	(701,042)
Business-Type Activities	71,977	580,696	-	-	-	-	-	-	-	-
Total Primary Government Net Expense	<u>\$ (7,215,059)</u>	<u>\$ (4,022,790)</u>	<u>\$ (6,299,545)</u>	<u>\$ (3,213,492)</u>	<u>\$ (5,196,663)</u>	<u>\$ 334,879</u>	<u>\$ 571,745</u>	<u>\$ (3,088,768)</u>	<u>\$ (2,729,907)</u>	<u>\$ (701,042)</u>
<b>General Revenues and Other Changes in Net Position</b>										
<b>Governmental Activities</b>										
Taxes										
Property Tax	\$ 2,283,558	\$ 2,362,314	\$ 2,331,137	\$ 1,958,320	\$ 2,067,945	\$ 1,971,567	\$ 1,942,431	\$ 1,864,214	\$ 1,649,330	\$ 1,523,582
Sales Tax	3,348,925	3,226,215	2,983,127	2,796,876	2,778,789	2,865,929	2,372,141	2,079,881	1,782,296	1,700,265
Utility Tax	2,060,534	2,004,827	1,785,764	1,778,346	1,857,471	1,601,734	-	-	-	-
Local Criminal Justice	399,784	370,000	355,112	337,172	342,588	396,749	428,029	389,306	335,156	325,377
Real Estate Excise Tax	544,516	522,804	280,174	442,206	303,668	424,548	1,029,449	986,741	1,183,361	1,112,265
Property Tax Parks Expansion Levy	-	46,297	111,212	-	-	-	-	-	-	-
Franchise Fee (Taxes)	303,565	200,952	196,256	197,813	189,337	182,289	169,772	154,128	143,806	128,146
City Assistance	-	-	-	-	-	-	78,977	82,296	66,900	100,300
MVET-Criminal Justice	51,846	48,650	47,832	47,686	49,330	44,614	44,003	41,216	34,762	30,665
Liquor Board Profits	159,644	175,960	122,500	140,224	119,454	116,182	126,115	110,200	107,737	107,639
Liquor Excise Tax	23,894	44,201	85,659	86,848	85,649	83,580	79,672	74,460	64,581	58,687
Other Intergovernmental not restricted to specific program	-	-	-	-	-	-	-	-	9,749	24,798
Interest Income	17,993	20,059	52,383	31,041	84,278	347,958	641,261	464,875	274,206	137,216
Penalties	-	-	-	-	-	3,388	6,777	1,780	4,775	-
Donations	-	-	-	-	-	-	-	500	500	4,250
Miscellaneous	84,340	142,655	86,951	66,416	102,014	71,981	256,301	118,722	73,961	57,162
Loss on sale of capital asset	-	-	-	-	(49,111)	-	-	-	-	-
Transfers - internal activities	(122,528)	(537,117)	-	-	-	-	-	-	-	-
Total Governmental Activities	9,156,071	8,627,817	8,438,107	7,882,948	7,931,412	8,110,519	7,174,928	6,368,319	5,731,120	5,310,352
<b>Business-Type Activities</b>										
Non Operating Revenue										
Interest Income	3,316	8,691	-	-	-	-	-	-	-	-
Miscellaneous	-	(3,664)	-	-	-	-	-	-	-	-
Gain on Sale of Capital Asset	-	212,620	-	-	-	-	-	-	-	-
Special Items	-	(900,067)	-	-	-	-	-	-	-	-
Transfers - internal activities	122,528	537,117	-	-	-	-	-	-	-	-
Total Business-Type Activities	125,844	(145,303)	-	-	-	-	-	-	-	-
Total Primary Government Net Expense	9,281,915	8,482,514	8,438,107	7,882,948	7,931,412	8,110,519	7,174,928	6,368,319	5,731,120	5,310,352
<b>Change in Net Position</b>										
Governmental Activities	1,869,035	4,024,331	2,138,562	4,669,456	2,734,749	8,445,398	7,746,673	3,279,551	3,001,213	4,609,310
Business-Type Activities	197,821	435,393	-	-	-	-	-	-	-	-
Total Primary Government	<u>\$ 2,066,856</u>	<u>\$ 4,459,724</u>	<u>\$ 2,138,562</u>	<u>\$ 4,669,456</u>	<u>\$ 2,734,749</u>	<u>\$ 8,445,398</u>	<u>\$ 7,746,673</u>	<u>\$ 3,279,551</u>	<u>\$ 3,001,213</u>	<u>\$ 4,609,310</u>

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

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>Change 2004-2013</b>
<b>Property</b>	2,283,558	2,362,314	2,331,137	1,958,320	2,067,945	1,971,567	1,942,431	1,864,214	1,649,330	1,523,582	55.1%
<b>Sales and Use</b>	3,348,925	3,226,215	2,983,127	2,796,876	2,778,789	2,865,929	2,372,141	2,079,881	1,782,296	1,700,265	89.7%
<b>Utility</b>	2,060,534	2,004,827	1,785,764	1,778,346	1,857,471	1,601,734	-	-	-	-	100.0%
<b>Local Criminal Justice</b>	399,784	370,000	355,112	337,172	342,588	396,749	428,029	389,306	335,156	325,377	13.7%
<b>Real Estate Excise</b>	544,516	522,804	280,174	442,206	303,668	424,548	1,029,449	986,741	1,183,361	1,112,265	-53.0%
<b>All Others</b>	538,949	516,060	563,459	472,571	443,770	426,665	419,562	380,004	350,886	325,137	58.7%

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

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Retail	\$2,314,265	\$2,210,346	\$2,078,015	\$2,048,892	\$2,002,369	\$1,561,998	\$1,384,995	\$ 1,274,762	\$ 1,070,292	\$ 737,944
Contracting	332,114	330,526	242,218	119,897	180,435	680,289	397,439	301,466	247,070	517,992
Food Services	357,098	348,720	334,515	317,125	308,971	290,862	275,171	231,207	216,073	166,065
Services - Other	143,968	150,870	125,154	124,960	121,771	100,224	86,171	86,931	70,331	103,677
Transportation/Communication/Utilities	91,252	82,551	73,184	72,068	70,688	86,664	90,871	60,242	65,940	57,589
Wholesale	53,542	48,999	41,599	42,521	40,946	67,002	53,282	45,688	46,400	46,519
Finance/Insurance/Real Estate	23,830	24,541	20,738	26,855	29,919	44,693	54,714	52,767	46,737	48,355
Other	<u>32,856</u>	<u>29,762</u>	<u>67,704</u>	<u>44,558</u>	<u>23,690</u>	<u>34,199</u>	<u>29,498</u>	<u>26,818</u>	<u>19,453</u>	<u>22,124</u>
<b>Total Sales Tax</b>	<b><u>\$3,348,925</u></b>	<b><u>\$3,226,315</u></b>	<b><u>\$2,983,127</u></b>	<b><u>\$2,796,876</u></b>	<b><u>\$2,778,789</u></b>	<b><u>\$2,865,931</u></b>	<b><u>\$2,372,141</u></b>	<b><u>\$ 2,079,881</u></b>	<b><u>\$ 1,782,296</u></b>	<b><u>\$1,700,265</u></b>

Source: Washington State Department of Revenue

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

	<b>Fiscal Year 2013</b>				<b>Fiscal Year 2004</b>			
	Number of Filers	Percentage of Total	Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Tax Liability	Percentage of Total
Unknown	3	0.1%	\$ 7,383	0.2%	11	0.4%	\$ 6,946	0.4%
Agriculture, Forestry, Fishing	15	0.3%	3,323	0.1%	6	0.2%	125	0.0%
Mining	5	0.1%	199	0.0%	5	0.2%	57	0.0%
Utilities	4	0.1%	360	0.0%	2	0.1%	177	0.0%
Construction	1,274	23.6%	332,114	11.1%	983	36.4%	517,992	30.5%
Manufacturing	312	5.8%	21,951	0.7%	81	3.0%	14,996	0.9%
Wholesale Trade	770	14.3%	53,542	1.8%	309	11.4%	46,519	2.7%
Retail Trade	1,478	27.4%	2,314,265	77.6%	507	18.8%	737,944	43.4%
Transportation and Warehousing	16	0.3%	862	0.0%	7	0.3%	738	0.0%
Information	206	3.8%	90,030	3.0%	110	4.1%	56,674	3.3%
Finance and Insurance	56	1.0%	6,937	0.2%	46	1.7%	8,535	0.5%
Real Estate, Rental, Leasing	144	2.7%	16,893	0.6%	97	3.6%	39,820	2.3%
Prof, Sci, Technical Svcs	238	4.4%	12,722	0.4%	79	2.9%	21,965	1.3%
Company Management	-	0.0%	-	0.0%	259	9.6%	-	0.0%
Admin, Supp, Remed Svcs	435	8.1%	31,431	1.1%	5	0.2%	27,850	1.6%
Educational Services	46	0.9%	613	0.0%	14	0.5%	24	0.0%
Health Care Social Assistance	32	0.6%	6,323	0.2%	10	0.4%	2,904	0.2%
Arts, Entertain, Recreation	32	0.6%	27,547	0.9%	46	1.7%	1,106	0.1%
Accomodation and Food Svcs	73	1.4%	357,098	12.0%	122	4.5%	166,065	9.8%
Other Services	241	4.5%	34,668	1.2%	1	0.0%	21,694	1.3%
Public Administration	9	0.2%	30,664	1.0%		0.0%	28,134	1.7%
	<u>5,389</u>	<u>100.0%</u>	<u>\$ 3,348,925</u>	<u>112.3%</u>	<u>2,700</u>	<u>100.0%</u>	<u>\$ 1,700,265</u>	<u>100.0%</u>

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.

Source: Taxtools Database by Microflex, Inc.

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

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b> (Note 3)	<b>2007</b> (Note 2)	<b>2006</b>	<b>2005</b>	<b>2004</b>
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%	0.000%	0.000%	0.000%	0.000%
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%	0.900%	0.900%	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)	<u>0.089%</u>	<u>0.089%</u>	<u>0.089%</u>	<u>0.089%</u>	<u>0.089%</u>	<u>0.089%</u>	<u>0.089%</u>	<u>0.089%</u>	<u>0.089%</u>	<u>0.089%</u>
Total Criminal Justice Tax	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>	<u>0.100%</u>
Total Local Rate	<u>2.100%</u>	<u>2.100%</u>	<u>2.100%</u>	<u>2.100%</u>	<u>2.100%</u>	<u>2.100%</u>	<u>2.000%</u>	<u>1.900%</u>	<u>1.900%</u>	<u>1.900%</u>
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)	<u>0.001%</u>	<u>0.001%</u>	<u>0.001%</u>	<u>0.001%</u>	<u>0.001%</u>	<u>0.001%</u>	<u>0.001%</u>	<u>0.001%</u>	<u>0.001%</u>	<u>0.001%</u>
Total City of Covington	<u>0.926%</u>	<u>0.926%</u>	<u>0.926%</u>	<u>0.926%</u>	<u>0.926%</u>	<u>0.926%</u>	<u>0.926%</u>	<u>0.926%</u>	<u>0.926%</u>	<u>0.926%</u>
King County Share	1.174%	1.174%	1.174%	1.174%	1.174%	1.174%	1.074%	0.974%	0.974%	0.974%
State of Washington	<u>6.500%</u>	<u>6.500%</u>	<u>6.500%</u>	<u>6.500%</u>	<u>6.500%</u>	<u>6.500%</u>	<u>6.500%</u>	<u>6.500%</u>	<u>6.500%</u>	<u>6.500%</u>
Total Sales Tax Rate	<u>8.600%</u>	<u>8.600%</u>	<u>8.600%</u>	<u>8.600%</u>	<u>8.600%</u>	<u>8.600%</u>	<u>8.500%</u>	<u>8.400%</u>	<u>8.400%</u>	<u>8.400%</u>

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.

Sources:

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**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General Fund										
Reserved	\$ -	\$ -	\$ -	\$ 65,411	\$ 74,391	\$ 60,372	\$ 4,000	\$ 33,944	\$ 33,141	\$ 32,547
Unreserved	-	-	-	2,286,179	2,226,147	2,150,676	1,300,941	884,386	2,064,632	1,962,157
Nonspendable	156,449	64,186	26,150	-	-	-	-	-	-	-
Restricted	94,520	197,366	25,164	-	-	-	-	-	-	-
Assigned	-	320,473	611,083	-	-	-	-	-	-	-
Unassigned	5,665,787	4,911,695	4,220,407	-	-	-	-	-	-	-
Total General Fund	<u>5,916,756</u>	<u>5,493,720</u>	<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>
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
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
Nonspendable	19,532	20,727	28,200	-	-	-	-	-	-	-
Restricted	1,683,549	1,818,004	2,587,549	-	-	-	-	-	-	-
Committed	2,113,488	2,362,427	1,743,845	-	-	-	-	-	-	-
Assigned	937,703	807,384	983,257	-	-	-	-	-	-	-
Total All Other Governmental Funds	<u>4,754,272</u>	<u>5,008,542</u>	<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>
Total Governmental Funds	<u>\$ 10,671,028</u>	<u>\$ 10,502,262</u>	<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>

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**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Revenues</b>										
Taxes	\$ 8,632,095	\$ 8,534,091	\$ 7,854,405	\$ 7,331,450	\$ 7,328,863	\$ 7,252,738	\$ 5,771,775	\$ 5,314,051	\$ 4,976,299	\$ 4,652,222
Licenses and Permits	891,587	1,164,898	813,379	646,497	502,276	814,074	1,225,381	663,967	602,659	917,827
Intergovernmental	1,086,728	2,256,019	1,555,877	3,065,275	1,492,203	1,999,078	3,769,373	2,271,065	1,542,478	2,160,179
Charges for Goods and Services	1,252,290	1,756,053	3,050,323	2,996,856	3,774,421	3,289,049	4,548,746	2,340,805	2,426,539	2,486,377
Fines and Forfeitures	123,244	162,955	154,765	128,214	138,291	112,069	101,248	101,895	120,965	85,162
Special Assessments	36,992	38,321	39,650	52,122	43,869	74,271	103,285	20,973	30,673	1,171,675
Interest Income	17,993	20,059	52,383	30,375	75,045	459,741	641,261	464,875	274,206	137,216
Penalties	-	-	-	-	-	3,388	6,777	1,780	4,775	-
Interfund Services Payment	383,917	358,061	656,362	588,194	866,000	1,167,185	392,360	213,000	-	-
Miscellaneous	245,924	238,104	180,821	208,795	234,611	622,516	134,841	450,742	162,541	84,715
Total Revenues	<u>12,670,770</u>	<u>14,528,561</u>	<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>
<b>Expenditures</b>										
Current										
General Government	3,321,727	3,203,112	3,367,630	3,259,194	3,101,181	3,015,886	2,099,809	2,292,506	1,809,877	2,149,388
Community Development	1,598,327	1,263,913	1,176,468	1,042,123	2,181,706	2,434,387	2,005,329	1,420,422	1,017,855	1,790,147
Public Safety	3,081,999	2,919,182	2,810,419	2,784,450	2,638,016	2,543,686	2,166,995	1,999,326	1,884,955	1,819,139
Culture and Recreation	1,596,138	1,242,801	1,160,501	1,202,554	1,151,642	932,694	688,198	1,159,896	1,449,981	571,785
Streets and Highways	848,136	953,120	2,154,985	2,134,312	2,420,338	2,061,538	1,957,620	1,619,822	861,857	716,496
Capital Outlay										
General Government	12,442	-	4,297	5,973	-	21,451	12,446	66,599	-	48,179
Community Development	-	-	-	-	17	-	-	14,807	5,343	55,303
Public Safety	29,382	-	-	-	-	-	-	-	-	7,995
Culture and Recreation	256,182	1,531,115	73,492	126,374	357,962	750,243	195,986	181,565	458,226	938,498
Streets and Highways	635,468	680,939	407,143	2,603,995	1,983,434	10,176,804	14,699,562	5,133,615	969,598	3,253,567
Debt service										
Principal	806,284	782,321	773,156	466,479	272,728	398,187	169,855	70,358	-	-
Interest	506,348	536,843	599,481	613,308	617,106	619,718	250,598	25,869	26,132	20,836
Bond Issuance Cost	-	-	-	-	-	12,080	92,646	-	-	-
Total Expenditures	<u>12,692,433</u>	<u>13,113,346</u>	<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>
Excess of Revenues over (under) Expenditures	<u>(21,663)</u>	<u>1,415,215</u>	<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>
<b>Other Financing Sources (Uses)</b>										
Transfers In	2,102,339	1,972,102	2,023,718	1,690,062	2,707,653	2,594,956	1,564,955	1,741,506	2,204,817	2,537,050
Transfers Out	(2,064,177)	(2,085,523)	(2,023,718)	(1,690,062)	(2,707,653)	(2,594,956)	(1,564,955)	(1,741,506)	(2,204,817)	(2,537,050)
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	-	42,106	-	-	85,669	130,942	125,015	-	223,379	2,407
Compensation from Loss of Asset	15,800	37,005	4,857	570	2,731	2,377	60,928	-	-	-
Total Other Financing Sources (Uses)	<u>53,962</u>	<u>(34,310)</u>	<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>
Net Change in Fund Balances	<u>\$ 32,299</u>	<u>\$ 1,380,905</u>	<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>
Debt service as a percentage of noncapital expenditures	12.47%	12.05%	11.31%	9.37%	7.19%	13.18%	4.68%	1.11%	0.36%	0.29%

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Property Tax	\$2,278,336	\$2,363,948	\$2,339,013	\$1,976,819	\$2,046,294	\$1,963,753	\$1,942,156	\$1,858,123	\$1,675,486	\$1,514,315
Sales Tax	3,348,925	3,226,215	2,983,127	2,796,876	2,778,789	2,865,929	2,372,141	2,079,881	1,782,296	1,700,265
Utility Tax	2,060,534	2,004,827	1,785,764	1,778,346	1,857,471	1,601,734	-	-	-	-
Local Criminal Justice	399,784	370,000	355,112	337,172	342,588	396,749	428,029	389,306	335,156	325,377
Real Estate Excise Tax	544,516	522,804	280,174	442,206	303,668	424,548	1,029,449	986,741	1,183,361	1,112,265
All Others	-	46,297	111,215	31	53	25	-	-	350,886	325,137
<b>Total Taxes</b>	<u>\$8,632,095</u>	<u>\$8,534,091</u>	<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>

**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)			
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
2012	616,578,144	930,283,814	762,510	-	25,032,370	13,500,701	-	1,586,157,539	1.4809	12,531,950
2013	566,151,464	929,017,114	747,801	-	25,245,781	16,292,495	-	1,537,454,655	1.5476	25,957,902

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. Omitteds 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

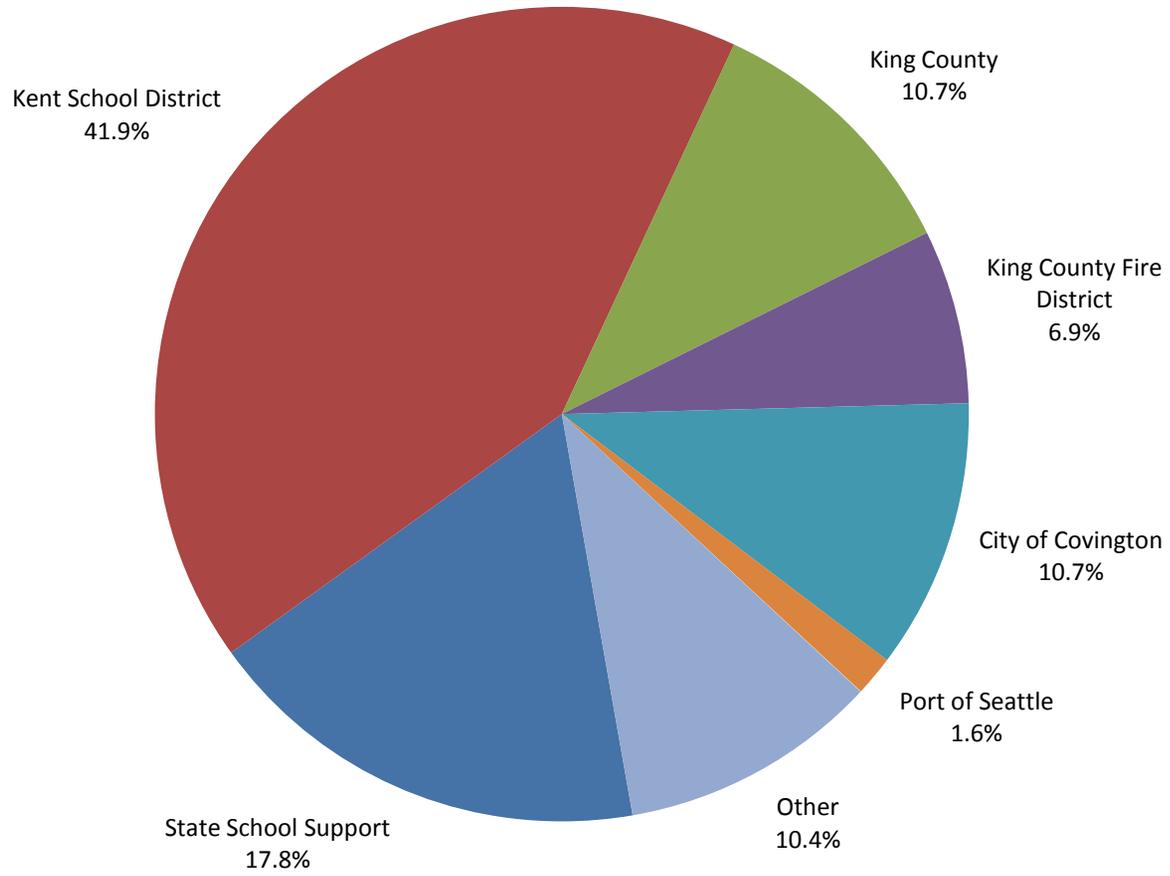
**City of Covington**  
**Direct and Overlapping Property Tax Rates (Note 1)**  
**Per One Thousand of Assessed Valuation**  
**Last Ten Fiscal Years**

Fiscal Year	City of Covington			Overlapping Rates						
	Operating	Debt Service	Total Rate	School District	King County	King County Fire District	Washington State	Port of Seattle	Other	Total
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
2012	1.48090	-	1.48090	5.59986	1.41588	1.00000	2.42266	0.22982	1.48980	13.63892
2013	1.54758	-	1.54758	6.02819	1.54050	1.00000	2.56720	0.23324	1.50331	14.42002

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

**2013 Property Tax Allocation by Taxing Districts**



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

Taxpayer	Type of Business/Property	2013			2004		
		Assessed Value	Rank	Percentage of Total Assessed Value <sup>(1)</sup>	Assessed Value	Rank	Percentage of Total Assessed Value <sup>(1)</sup>
Multicare Health Systems	Healthcare	\$ 31,758,800	1	2.07%	\$21,904,993	1	1.84%
TRC MM, LLC	Shopping Center	27,076,600	2	1.76%	-		0.00%
Covington Esplanade, LLC	Shopping Center	26,084,400	3	1.70%	-		0.00%
South Adagio Apartments, LLC	Apartments	23,832,000	4	1.55%	-		0.00%
Fred Meyer Inc.	Department Store	20,024,900	5	1.30%	13,455,400	3	1.13%
Costco Wholesale Corp	Commercial	14,657,600	6	0.95%	-		0.00%
Covington Commercial II, LLC	Shopping Center	14,657,600	7	0.95%	-		0.00%
Wal-Mart Stores, Inc.	Department Store	14,622,600	8	0.95%	-		0.00%
Covington Retail Assoc, LLC	Shopping Center	13,422,100	9	0.87%	-		0.00%
Covington Group, LLC	Shopping Center	11,066,800	10	0.72%	-		0.00%
GMS Realty, Inc.	Shopping Center	-		0.00%	16,066,800	2	1.35%
Norma J. Somers	Shopping Center	-		0.00%	5,033,000	4	0.42%
Lakeside Industries	Gravel Pit Operations	-		0.00%	3,968,700	5	0.33%
Roundup Company	Department Store	-		0.00%	3,425,323	6	0.29%
Gerald L. & Mary Ann Honeysett	Mobile Home Park	-		0.00%	2,616,000	7	0.22%
Rodger C. & Stella Scott	Public Storage Facility	-		0.00%	2,064,000	8	0.17%
Robert J. Knutsen	Land	-		0.00%	1,738,500	9	0.15%
Larry Burr	Land	-		0.00%	1,643,400	10	0.14%
Total Assessed Value of 10 Largest Taxpayers		<u>\$ 197,203,400</u>		<u>12.82%</u>	<u>\$71,916,116</u>		<u>6.04%</u>

Note 1: Total 2013 assessed valuation, in millions, is \$1,537,454,655, and 2004 assessed valuation is \$1,192,004,772.

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>	
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	1,804,678	1,797,407	99.60%	7,271	1,804,678	100.00%	
2007	1,912,859	1,873,816	97.96%	38,915	1,912,731	99.99%	
2008	1,976,869	1,935,004	97.88%	41,542	1,976,546	99.98%	
2009	2,070,064	2,014,728	97.33%	54,447	2,069,175	99.96%	
2010	2,093,086	2,008,300	95.95%	83,806	2,092,106	99.95%	
2011	1,731,739	1,643,000	94.88%	83,570	1,726,570	99.70%	
2012	2,365,325	2,336,069	98.76%	16,221	2,352,290	99.45%	
2013	2,320,393	2,290,016	98.69%	-	2,290,016	98.69%	

Sources:  
King County Assessor

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

<b>Fiscal Year</b>	<b>Governmental Activities</b>			<b>Total Primary Government</b>	<b>Percentage of Personal Income (Note 1)</b>	<b>Per Capita (Note 1)</b>
	<b>General Obligation Bonds</b>	<b>Special Assessment Bonds</b>	<b>Other Long- Term Debt</b>			
2004	\$ -	\$ 460,100	\$ 757,100	\$ 1,217,200	0.16%	\$ 80.13
2005	-	460,100	1,663,626	2,123,726	0.26%	125.04
2006	-	431,587	1,663,626	2,095,213	0.23%	121.53
2007	12,555,148	352,160	3,463,953	16,371,261	1.65%	952.37
2008	12,822,064	176,758	3,468,963	16,467,785	1.63%	948.61
2009	12,819,431	149,557	3,223,436	16,192,424	1.62%	923.70
2010	12,600,535	114,236	3,008,540	15,723,311	1.62%	891.34
2011	12,090,982	62,896	2,793,644	14,947,522	1.47%	847.37
2012	11,555,746	28,074	2,578,748	14,162,568	1.33%	797.44
2013	10,989,799	-	2,363,852	13,353,651	*	737.77

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

\* Data not available at time of publication

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

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Less: Amounts Available in Debt Service Fund</b>	<b>Total</b>	<b>Percentage of Estimated Actual Taxable Value of Property (Note1)</b>	<b>Per Capita (Note 2)</b>
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
2012	11,555,746	-	11,555,746	0.73%	650.66
2013	10,989,799	-	10,989,799	0.71%	607.17

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

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

**City of Covington**  
**Computation of Direct and Overlapping Debt**  
**December 31, 2013**

<b>Jurisdiction</b>	<b>Net General Obligation Debt Outstanding (Note 1)</b>	<b>Percentage Applicable to Covington (Note 2)</b>	<b>Estimated Amount Applicable to Covington</b>
<b>Direct:</b>			
City of Covington	\$ 13,353,651	100.00%	\$ 13,353,651
<b>Overlapping:</b>			
King County	813,680,000	0.48%	3,905,664
King County Library	127,607,269	0.81%	1,033,619
Port of Seattle	283,815,000	0.48%	1,362,312
Hospital District #1	-	4.76%	-
Kent Regional Fire Authority #62	-	10.89%	-
Tahoma School District #409	113,207,820	0.01%	11,321
Kent School District #415	176,796,097	9.84%	17,396,736
<b>Total Overlapping Debt</b>	<u>1,515,106,186</u>		<u>23,709,652</u>
<b>Total Direct and Overlapping Debt</b>	<u>\$ 1,528,459,837</u>		<u>\$ 37,063,303</u>

Note 1: Total general obligation bonds outstanding on December 31, 2013. Source: King County

Note 2: Determined by ratio of 2013 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**  
**Last Ten Fiscal Years**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt Limit	\$ 115,309,099	\$ 118,961,815	\$ 129,667,203	\$ 136,715,548	\$ 158,932,882	\$ 141,455,517	\$ 124,938,175	\$ 111,730,739	\$ 99,901,044	\$ 89,400,358
Total Net Debt Applicable to Limit	<u>9,357,608</u>	<u>10,337,482</u>	<u>12,555,043</u>	<u>16,374,447</u>	<u>12,607,490</u>	<u>15,964,102</u>	<u>11,289,442</u>	<u>2,093,217</u>	<u>1,217,200</u>	<u>(2,725,625)</u>
Legal Debt Margin	<u>\$ 105,951,491</u>	<u>\$ 108,624,333</u>	<u>\$ 117,112,160</u>	<u>\$ 120,341,101</u>	<u>\$ 146,325,392</u>	<u>\$ 125,491,415</u>	<u>\$ 113,648,733</u>	<u>\$ 109,637,522</u>	<u>\$ 98,683,844</u>	<u>\$ 92,125,983</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	8.12%	8.69%	9.68%	11.98%	7.93%	11.29%	9.04%	1.87%	1.22%	-3.05%
Assessed Value	\$ 1,537,454,655	\$ 1,586,157,539	\$ 1,728,896,039	\$ 1,822,873,968	\$ 2,119,105,094	\$ 1,886,073,554	\$ 1,665,842,339	\$ 1,489,743,182	\$ 1,332,013,923	\$ 1,192,004,772
Debt Limit										
2.5% of General Purpose Limit, Voted & Non-voted	\$ 38,436,366	\$ 39,653,938	\$ 43,222,401	\$ 45,571,849	\$ 52,977,627	\$ 47,151,839	\$ 41,646,058	\$ 37,243,580	\$ 33,300,348	\$ 29,800,119
2.5% of Utility Purpose Limit, Voted	38,436,366	39,653,938	43,222,401	45,571,849	52,977,627	47,151,839	41,646,058	37,243,580	33,300,348	29,800,119
2.5% of Open Space, Park Facilities, Voted	<u>38,436,366</u>	<u>39,653,938</u>	<u>43,222,401</u>	<u>45,571,849</u>	<u>52,977,627</u>	<u>47,151,839</u>	<u>41,646,058</u>	<u>37,243,580</u>	<u>33,300,348</u>	<u>29,800,119</u>
Total Debt Limit	<u>115,309,099</u>	<u>118,961,815</u>	<u>129,667,203</u>	<u>136,715,548</u>	<u>158,932,882</u>	<u>141,455,517</u>	<u>124,938,175</u>	<u>111,730,739</u>	<u>99,901,044</u>	<u>89,400,358</u>
Debt Applicable to Limit										
Voted	-	-	-	-	-	-	-	-	-	-
Non-voted	12,523,291	13,325,078	14,293,439	14,469,375	14,910,895	16,999,254	16,371,261	3,562,941	2,311,734	626,746
Less: Amount Set Aside for Repayment of Voted General Obligation Debt	<u>(3,165,683)</u>	<u>(2,987,596)</u>	<u>(1,738,396)</u>	<u>1,905,072</u>	<u>(2,303,405)</u>	<u>(1,035,152)</u>	<u>(5,081,819)</u>	<u>(1,469,724)</u>	<u>(1,094,534)</u>	<u>(3,352,371)</u>
Total Net Debt Applicable to Limit	<u>\$ 9,357,608</u>	<u>\$ 10,337,482</u>	<u>\$ 12,555,043</u>	<u>\$ 16,374,447</u>	<u>\$ 12,607,490</u>	<u>\$ 15,964,102</u>	<u>\$ 11,289,442</u>	<u>\$ 2,093,217</u>	<u>\$ 1,217,200</u>	<u>\$ (2,725,625)</u>

Source: City's Financial Records

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

<b>Special Assessment Bonds</b>						
<b>Fiscal Year</b>	<b>Special Assessment</b>		<b>Debt Service</b>		<b>Coverage</b>	
	<b>Collections</b>		<b>Principal</b>	<b>Interest</b>		
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
2012		38,321		34,822	3,019	12.69
2013		36,992		28,074	1,347	27.46

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 Personal		Median Age	School Enrollment (Note 1)	Unemployment Rate (Note 2)
		Income	Personal Income			
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	57,837	1,020,244,680	35	27,200	8.2%
2012	17,760	60,090	1,067,198,400	35	26,975	6.8%
2013	18,100	*	*	*	27,196	5.2%

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 was provided by the Office of Financial Management .

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	2012			2003		
	Number of Employees	Rank	Percentage of Total Employment	Number of Employees	Rank	Percentage of Total Employment
Trade, Transportation, and Utilities	216,933	1	18.37%	221,292	1	19.90%
Professional and Business Services	192,100	2	16.27%	159,092	3	14.31%
Government	165,308	3	14.00%	162,450	2	14.61%
Educational and Health Services	144,858	4	12.27%	115,108	4	10.35%
Leisure and Health Services	114,392	5	9.69%	100,958	6	9.08%
Manufacturing	103,383	6	8.76%	105,900	5	9.53%
Information	80,900	7	6.85%	68,200	8	6.13%
Financial Activities	68,333	8	5.79%	80,492	7	7.24%
Construction	<u>50,433</u>	9	<u>4.27%</u>	<u>57,633</u>	9	<u>5.18%</u>
<b>Total</b>	<u>1,136,640</u>		<u>96.27%</u>	<u>1,071,125</u>		<u>96.33%</u>
<b>Total Employment</b>	<u>1,180,607</u>			<u>1,111,742</u>		

Note 1: FY2013 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:

2012 King County Comprehensive Annual Financial Report

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

	<u>2013 (Note 3)</u>	<u>2012</u>	<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>
<b>Function</b>										
General Government	13	13	13	13	13	13	12	12	14	9
Community Development	7	8	6	10	16	16	15	15	4	15
Public Safety (Note 1)	-	-	-	-	-	-	-	-	-	-
Culture and Recreation	11	11	10	10	9	9	8	8	13	4
Streets and Highways	4	12	10	13	14	14	11	11	5	5
Surface Water Management	<u>8</u>	<u>-</u>	<u>-</u>							
Total	<u>43</u>	<u>44</u>	<u>39</u>	<u>46</u>	<u>52</u>	<u>52</u>	<u>46</u>	<u>46</u>	<u>36</u>	<u>33</u>

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.

Note 3: In 2013, the City began reporting Surface Water Management separately. Prior to this it was reported in Streets and Highways.

Sources:

City of Covington Finance Department

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

Function	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>City Manager (Note 1)</b>										
Citizen Action Requests	171	212	194	275	281	268	347	401	N/A	N/A
Community Room Rentals	221	181	141	160	295	283	230	232	N/A	N/A
Contacts by Citizens (Phone and Walk-in)	10,473	10,802	11,894	11,279	13,088	15,116	12,984	12,014	N/A	N/A
<b>Finance (Note 1)</b>										
AP Checks Processed	1,722	1,757	1,738	1,794	1,758	1,758	1,600	1,829	1,689	1,513
AP Invoices Processed	2,889	2,796	2,797	2,931	2,994	2,994	2,638	2,982	2,339	2,290
AP \$ (in Millions)	9	10	7	10	20	20	17	10	6	8
AR Invoices/Statements Processed	402	614	838	753	751	751	902	1,020	826	624
Payroll Checks Processed	2,361	2,194	2,007	1,976	2,201	2,201	1,950	1,900	1,787	1,211
<b>City Clerk (Note 1)</b>										
Public Disclosure Requests	110	97	85	88	97	255	288	255	205	N/A
Covington Connection E-mails Received	61	93	78	116	178	186	243	219	194	N/A
Media Pitches (fka Press Reelases)	19	40	36	57	40	71	62	47	59	N/A
Contracts/Agreements	103	76	61	45	63	66	35	93	64	N/A
Ordinances/Resolutions Passed	22	30	32	49	38	49	65	130	113	N/A
<b>Community Development</b>										
No. of Permits Issued	204	268	122	115	131	209	225	135	207	387
Estimated Value (in Millions)	22	57	39	15	8	49	89	25	36	78
<b>Public Safety (Note 2)</b>										
No. of Calls for Service	4,421	4,289	3,803	4,196	4,135	4,026	3,837	4,098	3,982	3,720
Reported Crimes	1,303	1,417	1,418	1,638	1,311	1,631	1,591	1,385	1,338	1,292
Traffic Citations	1,257	1,055	5,925	1,170	1,470	1,451	1,795	1,956	1,776	970
<b>No. of Arrests</b>										
Adults	393	441	578	602	585	403	418	368	356	289
Juveniles	70	101	80	114	148	117	86	122	141	145
<b>Culture and Recreation (Note 3, 4)</b>										
Number of Parks	5	5	5	5	5	5	5	5	4	4
Park Acreage	135	135	135	135	135	135	135	135	135	135
Participants at Recreation Swims	26,523	23,556	20,527	22,068	18,949	21,920	15,351	33,684	32,838	-
Participants in Aquatic Activities	51,459	43,343	36,135	37,657	37,235	36,437	35,576	39,064	33,787	-
Aquatic Center Rental Hours	1,625	1,302	1,227	1,395	1,271	1,235	1,125	1,211	1,229	-
In-Water Attendance	110,652	92,949	81,197	87,620	81,599	83,057	73,427	96,958	91,195	-
<b>Public Works (Note 1)</b>										
Catch Basins Cleaned	1,342	248	184	956	2,265	2,265	2,100	1,841	N/A	N/A
Slope Mowing Miles	12	20	24	37	210	96	48	71	N/A	N/A
Landscape Mowing Miles	95	80	78	100	71	65	86	22	N/A	N/A
Miles of Streets Swept	1,828	2,056	843	2,274	2,054	2,290	1,192	1,754	N/A	N/A
Tons of Asphalt Used	11	87	269	58	95	100	94	155	N/A	N/A
Work Orders Completed	1,066	1,367	1,460	1,519	1,461	1,368	1,267	656	N/A	N/A

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.

Sources: City of Covington Finance Department

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

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Function</b>										
Culture and Recreation										
Number of Parks	5	5	5	5	5	5	5	5	4	4
Park Acreage	135	135	135	135	135	135	135	135	135	135
Swimming Pools	1	1	1	1	1	1	1	1	1	1
Vehicles	15	14	13	14	12	14	14	12	8	8

Sources:  
City of Covington Parks and Public Works Departments